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No. 95-

In The Supreme Court of the United States

October Term, 1995

Hydranautics,
Petitioner,

v.

FilmTec Corporation,
Respondent.

Petition for a Writ of Certiorari to the United States Court of Appeals for the Federal Circuit

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PETITION FOR A WRIT OF CERTIORARI

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QUESTION PRESENTED

In *Professional Real Estate Investors, Inc.* v. *Columbia Pictures Industries, Inc.*, 508 U.S. 49, 61-62 n.6 (1993), this Court expressly left open the question whether the *Noerr-Pennington* doctrine "permits the imposition of antitrust liability for a litigant's fraud or other misrepresentations." The question presented is whether the Federal Circuit below erred in holding that predatory litigation may be shielded from antitrust liability under *Noerr* without regard to allegations that the litigation is based on fraud, in direct conflict with the recent decision of the Ninth Circuit on the *same* facts arising from an appeal of the *same* district court order, holding that the litigation does not enjoy *Noerr* immunity because of the same allegations of fraud.

PARTIES TO THE PROCEEDING AND RULE 29.6 STATEMENT

The parties are listed in the caption. Petitioner Hydranautics is a wholly owned subsidiary of Nitto Denko America, Inc., which is a wholly owned subsidiary of Nitto Denko Corporation. Hydranautics has no non-wholly owned subsidiaries.

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PETITION FOR A WRIT OF CERTIORARI

Hydranautics petitions for a writ of certiorari to review the judgment of the Court of Appeals for the Federal Circuit entered in this case on October 12, 1995.

OPINIONS BELOW

The opinion of the Court of Appeals for the Federal Circuit is reported at 67 F.3d 931 and is reprinted in the appendix hereto ("App.") at 1a. That opinion affirmed the order of the District Court for the Southern District of California; that order is unreported and is reprinted at App. 19a. The District Court's order was also appealed to the Court of Appeals for the Ninth Circuit, which issued an opinion reversing the District Court. The Ninth Circuit's opinion is reported at 70 F.3d 533 and is reprinted at App. 30a.

JURISDICTION

The Court of Appeals for the Federal Circuit issued its opinion and entered its judgment on October 12, 1995. App. 1a. A timely petition for rehearing and suggestion for rehearing *in banc* was denied on January 23, 1996. App. 29a. On March 29, 1996, the Chief Justice entered an order extending the time to petition for certiorari to and including May 22, 1996. App. 42a. The jurisdiction of this Court is invoked pursuant to 28 U.S.C. § 1254(1).

STATUTORY PROVISIONS INVOLVED

Section 2 of the Sherman Act, 15 U.S.C. § 2, provides, in pertinent part:

> Every person who shall monopolize, or attempt to monopolize, or combine or conspire with any other person or persons, to monopolize any part of the trade or commerce among the several States, or with foreign nations, shall be deemed guilty of a felony * * *.

Section 4 of the Clayton Act, 15 U.S.C. § 15, provides, in pertinent part:

> [A]ny person who shall be injured in his business or property by reason of anything forbidden in the antitrust laws may sue therefor in any district court of the United States in the district in which the defendant resides or is found or has an agent, without respect to the amount in controversy, and shall recover threefold the damages by him sustained, and the cost of suit, including a reasonable attorney's fee.

INTRODUCTION

This Court has explained that a "principal purpose for which we use our certiorari jurisdiction * * * is to resolve conflicts among the United States courts of appeals." *Braxton* v. *United States*, 500 U.S. 344, 347 (1991). *See* S. Ct. Rule 10(a). One of the difficult

questions the Court confronts in managing its certiorari docket is determining whether any such conflict alleged in a petition for certiorari is in fact real, or whether the purported conflict can be explained away on the basis of factual distinctions between the various cases. No such difficulty is presented here. By virtue of the procedural history of this litigation, the *same* question on the *same* facts was presented virtually simultaneously to the Federal Circuit and the Ninth Circuit via separate appeals from the *same* District Court order. Those courts reached opposite results and—each having been alerted to the other's contrary ruling—decided to adhere to their respective positions. Respondent concedes that the Ninth Circuit "decision conflicts with the * * * decision of the Federal Circuit *in the same case*." FilmTec Pet. for Reh. (9th Cir.) at 1 (emphasis in original). The conflict is direct and stark.

The only remaining issue is whether the conflict is over a question sufficiently important and recurring to warrant this Court's attention. It plainly is. The Federal Circuit concluded that petitioner's antitrust claim was barred by the *Noerr-Pennington* doctrine,[1] despite the fact that petitioner had alleged fraud, while the Ninth Circuit concluded that the same claim was not so barred, *because* petitioner had alleged fraud. This Court has expressly reserved the question whether the *Noerr-Pennington* doctrine "permits the imposition of antitrust liability for a litigant's fraud or other misrepresentations." *Professional Real Estate Investors, Inc.* v. *Columbia Pictures Indus., Inc.* ("*PREI*"), 508 U.S. 49, 61-62 n.6 (1993). That open question is one over which the courts have long struggled in the context of the particular type of Sherman

[1] As explained below, the *Noerr-Pennington* doctrine confers immunity from suit under the antitrust laws for activities taken in the course of petitioning the government for redress, including through litigation, except when the petitioning activities are a "sham." *See United Mine Workers of Am.* v. *Pennington*, 381 U.S. 657, 669 (1965); *Eastern R.R. Presidents Conference* v. *Noerr Motor Freight, Inc.*, 365 U.S. 127, 136 (1961).

Act claim presented here—attempted monopolization through enforcement of a patent procured by fraud—which this Court first recognized in *Walker Process Equipment, Inc.* v. *Food Machinery & Chemical Corp.*, 382 U.S. 172 (1965).

The Court should grant certiorari to resolve the conflict between the Federal and Ninth Circuits on this important and recurring question of federal law.

STATEMENT OF THE CASE

This case arises out of litigation initiated in 1990 by respondent FilmTec Corporation ("FilmTec") against petitioner Hydranautics in the District Court for the Southern District of California for alleged infringement of a patent for certain membranes used to desalinate seawater. The District Court ruled in favor of FilmTec, but on appeal the Federal Circuit reversed, concluding that title to the patent had always belonged to the United States, not FilmTec. *FilmTec Corp.* v. *Hydranautics*, 982 F.2d 1546 (Fed. Cir. 1992), *cert. denied*, 114 S. Ct. 85 (1993).

The individual who conceived the invention for which the patent had been issued—John E. Cadotte—did so while conducting research funded by the United States Government. *Id.* at 1549. The statutory authority pursuant to which that research was funded expressly provided that title to any inventions conceived in the course of the research "shall vest in the United States," and that any patents issued for such inventions "shall be issued to the United States." *Id.* at 1548 (internal quotation marks omitted). Within weeks after conceiving the invention, however, Cadotte left the firm where he had been doing the government-funded research, formed FilmTec, applied for a patent on his discovery, and then assigned the rights to that patent to FilmTec. A patent was issued to FilmTec on the basis of Cadotte's application. *Id.* at 1549. The Federal Circuit subsequently determined,

however, that Cadotte never possessed any rights to assign, because "when the invention was conceived by Cadotte, title to that invention immediately vested in the United States by operation of law." *Id.* at 1553. *See* App. 2a, 5a.

In 1993, following the Federal Circuit decision in FilmTec's patent infringement action, Hydranautics filed an antitrust suit against FilmTec in the same District Court under § 2 of the Sherman Act, 15 U.S.C. § 2, alleging that FilmTec had fraudulently used the patent system to monopolize the market for the desalination membranes.[2] At the same time, Hydranautics moved for leave to amend its answer to the infringement complaint filed by FilmTec, so that it could raise the antitrust claim as a counterclaim in that action. FilmTec responded (1) by moving to dismiss the antitrust suit on the ground that Hydranautics' antitrust claim should have been raised as a compulsory counterclaim in the infringement action, and (2) by opposing Hydranautics' motion to amend its

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[2] Hydranautics alleged, *inter alia*, that (1) FilmTec applied for a patent that it knew or should have known the government owned; (2) FilmTec falsely stated, in response to a government inquiry as to why the invention had not been disclosed to the government, that the invention had first been conceived by Cadotte while he was employed by FilmTec; and (3) FilmTec brought its patent infringement action against Hydranautics in bad faith, without any reasonable basis for believing that it owned the patent, and in an effort to drive Hydranautics out of the market. *See* App. 24a. Hydranautics sought monetary relief under § 4 of the Clayton Act, 15 U.S.C. § 15, and injunctive relief under Section 16 of the Clayton Act, *id.* § 26.

The Federal Circuit did not address the issue of fraud in its prior decision in the patent infringement action. "[T]he [District Court's] patent infringement judgment was vacated on the ground that FilmTec did not own the patent, without a determination whether FilmTec had fraudulently obtained the patent." App. 36a (Ninth Circuit opinion). The Federal Circuit's determination "that title to the invention was and always had been in the United States," App. 5a, obviated any need to consider the circumstances surrounding FilmTec's patent application. *See* 982 F.2d at 1553.

answer to do just that on the grounds that the antitrust claim was barred by the *Noerr-Pennington* doctrine, and that Hydranautics had unduly delayed filing its motion to amend. *See* App. 5a.

The District Court considered Hydranautics' motion for leave to amend in the patent infringement action and FilmTec's motion to dismiss in the antitrust action together, and issued one ruling disposing of both. It held that Hydranautics' antitrust claim was a compulsory counterclaim that should have been raised in the patent infringement litigation, and thus dismissed Hydranautics' independently-filed antitrust action. App. 25a. At the same time, the District Court denied Hydranautics leave to amend its answer in the infringement litigation to include the antitrust claim as a counterclaim, on the ground that the attempted amendment came too late. App. 21a-22a. Hydranautics appealed the District Court's denial of the motion for leave to amend its answer in the infringement action to the Federal Circuit, pursuant to 28 U.S.C. § 1295(a)(1), and appealed the dismissal of its independently-filed antitrust action to the Ninth Circuit, pursuant to 28 U.S.C. § 1294(1).

Within one month of each other, those two courts of appeals reached irreconcilable results on the same question: whether the *Noerr-Pennington* doctrine barred Hydranautics' claim that FilmTec's predatory efforts to enforce a patent procured by fraud violated the antitrust laws. On October 12, 1995, the Federal Circuit affirmed the District Court's decision denying Hydranautics leave to amend its answer to include the antitrust claim as a counterclaim. The Federal Circuit rejected the District Court's conclusion that Hydranautics waited too long to file its motion to amend, noting that Hydranautics had acted promptly after the Federal Circuit ruling establishing that FilmTec never held title to the patent it sought to enforce. App. 9a. The court nonetheless upheld the denial of leave to amend on the ground that Hydranautics' antitrust claim was barred by the *Noerr-Pennington* doc-

trine, so that permitting Hydranautics to amend its answer to raise that claim would have been a "futile act." App. 14a.

Relying on this Court's decision in *PREI*, the Federal Circuit recognized that the *Noerr-Pennington* doctrine does not shield litigation from scrutiny under the antitrust laws when the litigation is a "sham." Applying this exception to FilmTec's infringement suit, the court—acknowledging that "the question is not without some doubt," App. 13a—concluded that "it cannot be said that FilmTec's suit against Hydranautics was objectively baseless." *Id.* The court further ruled that this conclusion made it unnecessary to "decide whether *Noerr-Pennington* immunity is vitiated by fraud on the patent office." App. 14a n.2 (citing *Walker Process Equip., Inc.* v. *Food Machinery & Chem. Corp., supra*). Because the court did not view FilmTec's suit as objectively baseless, and because it believed this conclusion made it unnecessary to consider Hydranautics' allegations of fraud, the Federal Circuit concluded that *Noerr-Pennington* barred Hydranautics' antitrust claim. App. 14a.

On November 15, 1995, the Ninth Circuit reached the opposite conclusion in the simultaneously pending appeal. That court reversed the District Court, holding that the court should have *permitted* Hydranautics' independently-filed antitrust claim to proceed. App. 40a. FilmTec argued before the Ninth Circuit—just as it had before the Federal Circuit—that Hydranautics should not be permitted to proceed with its antitrust claim, because that claim was barred by the *Noerr-Pennington* doctrine. Although the Federal Circuit had accepted that argument, the Ninth Circuit—fully aware of the Federal Circuit decision, *see* App. 39a-40a n.1—squarely rejected it.

The Ninth Circuit recognized that the allegations in Hydranautics' complaint, which had to be taken as true for purposes of FilmTec's motion to dismiss, established that "FilmTec obtained its patent by fraud." App. 40a.

As the Ninth Circuit explained, this Court in *Walker Process* "held that proof of the claim that the patent holder obtained its patent by knowingly and willfully misrepresenting facts to the Patent Office 'would be sufficient to strip [the patent holder] of its exemption from the antitrust laws.' " App. 38a (quoting 382 U.S. at 177). The Ninth Circuit noted that *Walker Process* "further held that 'enforcement of a patent procured by fraud on the Patent Office may be violative' of the Sherman Act and subject the defendant to treble damages under the Clayton Act." App. 38a (quoting 382 U.S. at 174). Thus, the Ninth Circuit held that *Noerr-Pennington* did not bar Hydranautics' antitrust claim, because Hydranautics had adequately alleged *Walker Process*-type fraud.

Hydranautics and FilmTec petitioned for rehearing in the Federal Circuit and Ninth Circuit, respectively. The Federal Circuit was alerted to the Ninth Circuit's decision in FilmTec's opposition to Hydranautics' petition for rehearing, but nonetheless denied rehearing and rehearing *in banc* on January 23, 1996. App. 29a. In the Ninth Circuit, FilmTec argued that rehearing was warranted because the Ninth Circuit decision "conflicts with the * * * decision of the Federal Circuit *in the same case.*" Pet. for Reh. at 1 (emphasis in original). The Ninth Circuit nonetheless denied rehearing and rehearing *en banc* on February 28, 1996. App. 41a.

This petition seeks review of the Federal Circuit decision.

REASONS FOR GRANTING THE WRIT

I. THE DECISION BELOW DIRECTLY CONFLICTS WITH THE RECENT DECISION OF THE NINTH CIRCUIT ON THE *SAME* FACTS ARISING FROM AN APPEAL FROM THE *SAME* DISTRICT COURT ORDER

The *Noerr-Pennington* doctrine confers immunity from suit under the antitrust laws for those who petition the government for redress of their grievances, including those who seek redress before administrative bodies or the courts. *See California Motor Transport Co.* v. *Trucking Unlimited*, 404 U.S. 508, 510 (1972); *Mine Workers* v. *Pennington*, 381 U.S. 657, 669 (1965); *Eastern R.R. Presidents Conference* v. *Noerr Motor Freight, Inc.*, 365 U.S. 127, 136 (1961). The doctrine withholds immunity, however, for petitioning activities that are a "mere sham," *i.e.*, a "cover [for] what is actually nothing more than an attempt to interfere directly with the business relationships of a competitor * * *." 365 U.S. at 144. For some time, the lower courts have struggled in defining and applying the *Noerr-Pennington* sham exception in the litigation context.

Two terms ago, this Court granted certiorari in *PREI* to resolve this uncertainty. *See* 508 U.S. at 55 n.3. The Court fashioned the following two-part definition of "sham litigation" that does not enjoy antitrust immunity under *Noerr-Pennington*:

> First, the lawsuit must be objectively baseless in the sense that no reasonable litigant could realistically expect success on the merits. If an objective litigant could conclude that the suit is reasonably calculated to elicit a favorable outcome, the suit is immunized under *Noerr*, and an antitrust claim premised on the sham exception must fail. Only if challenged litigation is objectively meritless may a court examine the litigant's subjective motivation. Under this second part of our definition of sham, the court should focus on whether the baseless lawsuit conceals an attempt

> to interfere *directly* with the business relationships of a competitor, through the use [of] governmental *process*—as opposed to the *outcome* of that process —as an anticompetitive weapon. [*Id.* at 60-61 (emphasis in original) (citations and internal quotation marks omitted).]

At the same time, the Court in *PREI* expressly left open the following question: whether the *Noerr-Pennington* doctrine "permits the imposition of antitrust liability for a litigant's fraud or other misrepresentations." *Id.* at 62 n.6.[3] That remaining question is the one presented here; the Federal Circuit and Ninth Circuit reached irreconcilable results in answering it.

The Federal Circuit answered the question left open by *PREI* in the negative. It asked whether FilmTec's patent infringement action was "objectively baseless" without regard to Hydranautics' allegations of fraud. Because the Federal Circuit concluded that FilmTec's suit was *not* objectively baseless on the ground that FilmTec had initially prevailed in the district court, the court concluded that FilmTec's suit was not a sham under the *PREI* test, and that Hydranautics' antitrust action was therefore barred by *Noerr-Pennington*. App. 14a & n.2.

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[3] The relevant passage of *PREI*—footnote six of the Court's opinion—states:

> In surveying the "forms of illegal and reprehensible practice which may corrupt the administrative or judicial processes and which may result in antitrust violations," we have noted that "unethical conduct in the setting of the adjudicatory process often results in sanctions" and that "[m]isrepresentations, condoned in the political arena, are not immunized when used in the adjudicatory process." *California Motor Transport Co.* v. *Trucking Unlimited*, 404 U.S. at 512-513. We need not decide here whether and, if so, to what extent *Noerr* permits the imposition of antitrust liability for a litigant's fraud or other misrepresentations. *Cf.* * * * *Walker Process Equipment, Inc.* v. *Food Machinery & Chemical Corp.*, 382 U.S. 172, 176-177 (1965); *id.* at 179-180 (Harlan., J., concurring). [508 U.S. at 61-62 n.6.]

Under the Federal Circuit approach, Hydranautics' allegations of fraud in no way altered that conclusion; indeed, those allegations were intentionally excluded from the analysis that led the court to conclude that Hydranautics' antitrust claim was subject to summary dismissal.[4]

The Ninth Circuit answered the question left open by *PREI* in the affirmative, and thus reached a contrary result on the same facts. The court rejected FilmTec's argument that its patent infringement action was entitled to *Noerr* immunity, "regardless of whether it obtained the patent[] fraudulently." App. 38a. Instead, the Ninth Circuit reasoned that it was required under *Noerr* and this Court's decision in *Walker Process* to consider Hydranautics' allegations of fraud in determining whether FilmTec's suit was "objectively baseless" under the *PREI* sham litigation test. App. 38a-39a. Taking those allegations as true for the purposes of FilmTec's motion to dismiss, the Ninth Circuit concluded that *Noerr-Pennington* did not bar Hydranautics' antitrust claim. App. 37a. Thus, under the Ninth Circuit approach, Hydranautics' allegations of fraud were dispositive in determining that the alleged predatory activities were not entitled to immunity under *Noerr*, and that Hydranautics' antitrust claim should therefore proceed.

Given the procedural history of this case, this conflict could not be more stark: on the *same* facts and on sepa-

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[4] Because it concluded that FilmTec's patent infringement suit was not objectively baseless (without regard to Hydranautics' allegations of fraud), the Federal Circuit thought it unnecessary to reach the issue "whether *Noerr-Pennington* immunity is vitiated by fraud on the patent office." App. 14a n.2. The Federal Circuit's approach, however, foreclosed any consideration of Hydranautics' allegations that FilmTec's suit was infected by *Walker Process*-type fraud. Thus, while it purported to leave the issue open, the Federal Circuit squarely decided that issue against Hydranautics: in the Federal Circuit, predatory litigation may be shielded by *Noerr* even if—as Hydranautics alleged and as must be taken as true at this stage—the litigation is based on *Walker Process*-type fraud.

rate appeals from the *same* District Court order, the Federal Circuit and Ninth Circuit reached irreconcilable results on the precise question left open by this Court in *PREI*. Even the parties agree on this score. As FilmTec itself put it in its Petition for Rehearing and Suggestion for Rehearing *En Banc* before the Ninth Circuit: the Ninth Circuit "decision conflicts with the * * * decision of the Federal Circuit *in the same case*." Pet. for Reh. at 1 (emphasis in original).

This conflict, moreover, does not create the mere possibility of subjecting different parties to different results in different circuits. Instead, under the conflicting rulings in this case, the same claim by the same party is permitted to stand in one circuit but is subjected to summary dismissal in another.[5] In addition, the conflict presented here is by no means an anomaly. Instead, as explained next, the irreconcilable results reached by the Federal and Ninth Circuits in this case are simply the most recent manifestation of long-standing disagreement and confusion in the lower courts on the important and recurring question left open by *PREI*. This Court should grant the petition to resolve that conflict. *See* S. Ct. Rule 10(a).

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[5] The Ninth Circuit reversed and remanded the District Court's order dismissing Hydranautics' antitrust claim, and left for the District Court to consider any argument that might be raised on remand that the Ninth Circuit's ruling was precluded under "*res judicata*" principles by the Federal Circuit decision. App. 39a-40a n.1. Whatever the disposition of any such argument in that proceeding, the pertinent points for present purposes are (1) the Ninth Circuit expressly reached and conclusively decided the question presented by this petition in a manner that stands—and will continue to stand regardless of the outcome of any future proceedings before the District Court—in direct conflict with the Federal Circuit decision below; (2) the Federal Circuit decision below is final and therefore reviewable here and now, *see Virginia Military Inst.* v. *United States*, 508 U.S. 946 (1993) (opinion of Scalia, J., on denial of certiorari); and (3) there is absolutely no *res judicata* bar to the review of the Federal Circuit decision here. The possibility of a *res judicata* ruling on remand from the Ninth Circuit appeal may affect the suitability of the Ninth Circuit decision for certiorari, but has no effect on the Federal Circuit decision.

II. THE CONFLICTING DECISIONS OF THE FEDERAL AND NINTH CIRCUITS IN THIS CASE REFLECT THE LONG-STANDING DISAGREEMENT AND CONFUSION IN THE LOWER COURTS ON THE IMPORTANT AND RECURRING QUESTION LEFT OPEN BY THIS COURT IN *PREI*

The lower courts have long struggled with the question whether fraud or misrepresentations committed during the course of or in connection with judicial or administrative proceedings that would otherwise give rise to antitrust liability may be shielded by *Noerr-Pennington*. This issue often arises in the particular factual setting presented here, where a party brings an action seeking enforcement of a patent that the defendant in the infringement action alleges was procured by fraud. In *Walker Process Equipment, Inc.* v. *Food Machinery & Chemical Corp.*, 382 U.S. at 174, this Court held that "the enforcement of a patent procured by fraud * * * may be violative of § 2 of the Sherman Act * * *."[6] The Court reached this conclusion without any discussion of *Noerr-Pennington*, or the principles on which that doctrine is based. In *California Motor Transport*, the Court cited *Walker Process* as an example of an "illegal and reprehensible practice which may corrupt the administrative or judicial processes and which may result in antitrust violations." 404 U.S. at 513. But this Court has never squarely addressed the interrelationship between the *Walker Process* and *Noerr-Pennington* doctrines, as the Court made clear in *PREI*. *See* 508 U.S. at 61-62 n.6.

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[6] A related situation, also implicated by the facts alleged by Hydranautics here, arises where the antitrust claim is founded on allegations that a party seeking to enforce a patent (not necessarily procured through fraud) knew or should have known that the patent was nevertheless invalid. This is known as a "*Handgards* claim." *See Handgards, Inc.* v. *Ethicon, Inc.*, 743 F.2d 1282 (9th Cir. 1984), *cert. denied*, 469 U.S. 1190 (1985); *Handgards, Inc.* v. *Ethicon, Inc.*, 601 F.2d 986 (9th Cir. 1979), *cert. denied*, 444 U.S. 1025 (1980).

In the absence of guidance from this Court, the lower courts have struggled to reconcile these two doctrines, and have adopted different approaches to analyzing antitrust claims predicated on fraud or other abuse of adjudicatory and administrative process. Some courts have concluded that *Noerr-Pennington* is simply "inapplicable" to *Walker Process*-type claims. *Woods Exploration & Producing Co.* v. *Aluminium Co. of Am.*, 438 F.2d 1286, 1298 (5th Cir. 1971). *Accord Instructional Sys. Dev. Corp.* v. *Aetna Cas. & Sur. Co.*, 817 F.2d 639, 649-650 (10th Cir. 1987); *St. Joseph's Hosp., Inc.* v. *Hospital Corp. of Am.*, 795 F.2d 948, 955 (11th Cir. 1986); *Federal Prescription Serv., Inc.* v. *American Pharmaceutical Ass'n*, 663 F.2d 253, 263 & n.7 (D.C. Cir. 1981). Some courts have characterized "[t]he *Walker Process* doctrine as an *exception* to the *Noerr-Pennington* doctrine." *Rohm & Haas Co.* v. *Dawson Chemical Co.*, 635 F. Supp. 1211, 1222 (S.D. Tex. 1986) (emphasis added).[7] Some courts have treated *Walker Process*-type conduct as a "sham" activity under *Noerr*. *See, e.g., Wright* v. *DeArmond*, 977 F.2d 339, 346 (7th Cir. 1992); *Potters Med. Ctr.* v. *City Hosp. Ass'n*, 800 F.2d 568, 580 (6th Cir. 1986); *Coastal States Mkg., Inc.* v. *Hunt*, 694 F.2d 1358, 1371 n.42 (5th Cir. 1983). And some courts have analyzed *Walker Process* claims without discussing *Noerr* at all. *See, e.g., Kearney & Trecker Corp.* v. *Giddings & Lewis, Inc.*, 452 F.2d 579, 597-599 (7th Cir. 1971) (Stevens, J.).[8]

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[7] The Eleventh Circuit in *St. Joseph's Hospital* explicitly rejected that approach:

> The district court in a rather lengthy opinion focused almost entirely on the "sham exception" and whether the plaintiffs had alleged a cause of action which would come within that exception. In order to find that a situation falls within an exception to a general rule, it must first be clear that the general rule itself is applicable. The plaintiff here has alleged misrepresentations before a governmental agency * * * acting judicially. Misrepresentations under these circumstances do not enjoy *Noerr* immunity. [795 F.2d at 955.]

[8] The commentators also have struggled in delineating the interrelationship between the *Walker Process* and *Noerr-Pennington*

More than anything, confusion has reigned. As one court recently put it:

> The relationship between *Noerr-Pennington* and *Walker Process* is amorphous at best. Whether *Walker Process*-type claims are some type of subset of the "sham" exception or a different type of exception altogether which falls outside the *Noerr-Pennington* doctrine is unclear. The Supreme Court's pronouncements in the area have been either non-existent or murky, and lower courts have struggled to interpret them. *See, e.g.*, Einer Elhauge, *Making Sense of Antitrust Petitioning Immunity*, 80 Cal. L. Rev. 1177, 1192 (1992) ("After decades of decisions, no clear rule has emerged"). [*United States Gypsum Co.* v. *National Gypsum Co.*, 1994 WL 14648, at *2 (N.D. Ill. Jan. 20, 1994).]

See also Novo Nordisk of N. Am. v. *Genentech, Inc.*, 885 F. Supp. 522, 527 (S.D.N.Y. 1995) ("[t]he relationship between a *Walker Process* claim and *Noerr-Pennington* immunity * * * is an area choked with the fog of uncertainty") (internal quotation marks omitted).

The need for guidance from this Court has intensified in the wake of *PREI*, as the lower courts are now left to decide not only how *Walker Process* and *Noerr-Pennington*

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doctrines. *See, e.g.*, Phillip E. Areeda & Herbert Hovenkamp, *Antitrust Law: An Analysis of Antitrust Principles and Their Application* ¶ 203.4b, at 60 n.4 (1994 Supp.) (the characterization of *"Walker* as an 'exception' to *Noerr* * * * is merely to say, correctly, that *Noerr* does not protect a suit to enforce a fraudulently obtained patent"); James B. Kobak, Jr., *Professional Real Estate Investors and the Future of Patent Litigation: Walker Process and Handgards Meet Noerr-Pennington*, 63 Antitrust L.J. 185, 186 (Fall 1994) ("it does not seem safe to conclude *a fortiorari* that *Noerr* principles do not apply to a *Walker Process* claim"); Richard Calkins, *Patent Law: The Impact of the 1988 Patent Misuse Reform Act and Noerr-Pennington Doctrine on Misuse and Antitrust Counterclaims*, 38 Drake L. Rev. 175, 227 (1989) ("it is perhaps safe to say that *Noerr-Pennington* * * * [has] no impact on antitrust counterclaims which are based on unfounded patent infringement actions").

interrelate as a doctrinal matter, but more pointedly whether *Walker Process*-type claims are subject to *PREI*'s two-part sham litigation test and, if so, how a party's allegations of fraud or misrepresentations should be considered under that test. As noted, this Court specifically reserved that question in *PREI*. *See* 508 U.S. at 61-62 n.6. "The future of [*Walker Process*-type] claims has," as a result, "become a good deal cloudier since [*PREI*]." Kobak, *supra*, at 185. And the split of authority in the lower courts on whether and, if so, how *Noerr* applies to *Walker Process*-type antitrust claims has taken on heightened significance as it has now become outcome determinative within the framework of the *PREI* test, as witnessed by the conflicting results in the Federal Circuit and Ninth Circuit decisions in this case.

In *Liberty Lake Investments, Inc.* v. *Magnuson*, 12 F.3d 155 (9th Cir. 1993), *cert. denied*, 115 S. Ct. 77 (1994), the Ninth Circuit concluded that *PREI*'s two-part test—including its threshold objective prong—is necessarily met where there was "proof that a party's knowing fraud upon, or its intentional misrepresentations to, the court deprive [prior] litigation of its legitimacy." *Id.* at 159. This is true in the *Walker Process* context. As the *Liberty Lake* court explained, "[i]n a case involving a fraudulently obtained patent, that which immunizes the predatory behavior from antitrust liability (the patent) is, in effect, a nullity because of the underlying fraud." 12 F.3d at 159. Thus, because the fraud "deprive[s] the litigation of its legitimacy," the Ninth Circuit reasoned that *Noerr-Pennington* immunity is simply unavailable in these circumstances. *Id.*

The foregoing analysis was dictum in the context of *Liberty Lake*, because that case did not involve "a party's knowing fraud upon, or * * * intentional misrepresentations to," an administrative or judicial tribunal. 12 F.3d at 159. But the Ninth Circuit embraced *Liberty Lake*'s

reading of *PREI* in its opinion in this case, and applied that rationale in holding that Hydranautics' antitrust claim was not subject to dismissal on the pleadings under *Noerr-Pennington*. *See* App. 38a-39a.[9] Other courts have followed this same approach in the wake of *PREI*. *See, e.g., Whelan* v. *Abell*, 48 F.3d 1247, 1255 (D.C. Cir. 1995) (relying on *Liberty Lake* and its interpretation of *PREI* for the proposition that neither *Noerr-Pennington* nor the First Amendment protects petitioning activity predicated on fraud or deliberate misrepresentations); *Novo Nordisk of N. Am.* v. *Genentech, Inc.*, 885 F. Supp. at 527 (refusing to dismiss *Walker Process* claim on pleadings, in part, on ground that claim was not barred under *PREI*'s

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[9] The District Court in *Gen-Probe, Inc.* v. *Amoco Corp.*, 1996 WL 238711, at *6 (S.D. Cal. Apr. 24, 1966), recently summarized the Ninth Circuit law on *Noerr*'s application to *Walker Process*-type claims:

> [*PREI*] reserved the question of "whether and, if so, to what extent *Noerr* permits the imposition of antitrust liability for a litigant's fraud or other misrepresentations." [*PREI*], 113 S. Ct. at 1929 n.6. Ninth Circuit cases since [*PREI*] have permitted claims to go forward where "a party's knowing fraud upon, or its intentional misrepresentations to, the court deprive the litigation of its legitimacy." *Liberty Lake Investments, Inc.* v. *Magnuson*, 12 F.3d 155, 159 (9th Cir. 1993) (dictum); *Hydranautics* v. *FilmTec Corp.*, 70 F.3d 533, 537-538 (9th Cir. 1995) (intentional fraud in procurement of patent would deprive district court judgment of infringement in favor of patent holder of legitimacy, thereby eliminating its value as evidence of patent holder's probable cause to bring that infringement action).

In *Gen-Probe*, the District Court rejected the plaintiff's argument that its allegations of fraud rendered *Noerr* inapplicable on the facts there, because the plaintiff "fail[ed] to allege that [the lawsuits and administrative applications on which the claims at issue were based] contain *knowingly* false statements, and fail[ed] to provide specific allegations that would when proven establish *knowing* falsity of the statements." *Id.* (emphasis added). In this case, of course, the Ninth Circuit held that Hydranautics adequately pleaded that FilmTec committed "intentional fraud," thus taking the case outside of *Noerr* under the Ninth Circuit rule. *See* App. 39a-40a.

sham test); *United States Gypsum Co.* v. *National Gypsum Co.*, 1994 WL 14648, at *3 (holding that, "[w]hatever the relationship between *Noerr* and *Walker Process*, the 'sham' test enunciated in [*PREI*] does not apply to a *Walker Process* cause of action * * *"). *See also Gunderson* v. *University of Alaska*, 902 P.2d 323, 328-329 (Alaska 1995) (adopting *Liberty Lake*'s reading of *PREI*).

The Federal Circuit adopted an entirely different approach in this case. It dismissed Hydranautics' argument that *Walker Process* takes this case outside of *Noerr-Pennington*, and instead analyzed the case strictly within the confines of *PREI*'s two-part test. Because the court believed that FilmTec's initial patent infringement action was not "objectively baseless" under prong one, the Federal Circuit held that there was no need to reach Hydranautics' allegations that FilmTec had fraudulently obtained the patent on which its infringement suit was based —the heart of Hydranautics' *Walker Process* claim and the basis for its argument that *Noerr-Pennington* does not shield FilmTec from antitrust liability for bringing its infringement action.[10] Although we believe the Federal Circuit's approach to be wrong, some courts have followed it. *See, e.g., Music Center S.N.C. di Luciano Pisoni & C.* v. *Prestini Musical Instruments Corp.*, 874 F. Supp. 543, 549 & n.1 (E.D.N.Y. 1995) (stating that, although the argument that *Walker Process*-type claims are not covered by *Noerr-Pennington* "may have had some merit before *PREI* and its requirement of a

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[10] Hydranautics made its position in this regard very clear to the Federal Circuit: "The antitrust claims alleged in Hydranautics' complaint, which at this stage must be taken as true, would *per se* be a 'sham' litigation under any 'objectively baseless' test. Every attempt to enforce, for anticompetitive reasons, a patent that was fraudulently procured, or as to which the plaintiff had no legal right, is by definition 'objectively baseless.' " Reply Br. at 13-14. This of course is the position the Ninth Circuit first articulated in *Liberty Lake* and adopted as a holding in this case.

colorable claim of 'objectively baseless' litigation, [the position] is now no longer tenable"). True to this approach, some commentators have observed that "*PREI* has provided courts with a ready basis to summarily dismiss [*Walker Process*-type] claims." David T. Pritikin & Bruce M. Zessar, *The Sham Litigation Doctrine in Patent Litigation: The Nexus Between Bad Faith Enforcement of Patent Rights and the Antitrust Laws*, in *Intellectual Property Antitrust 1995*, 414 Prac. Law Inst. 661, 684 & n.21.[11]

The difference between the Ninth Circuit and Federal Circuit approaches in analyzing *Walker Process*-type claims under *PREI* is fundamental and, as is aptly illustrated by this case, outcome determinative: under the Federal Circuit approach, Hydranautics' antitrust claim is subject to summary dismissal under *Noerr* and *PREI*'s sham litigation test without consideration of Hydranautics' allegations of *Walker Process*-type fraud; under the Ninth Circuit approach, Hydranautics' antitrust claim may proceed in the face of *Noerr* and *PREI because* of Hydranautics' allegations of *Walker Process*-type fraud.

As is apparent from the foregoing discussion, the question of *Noerr-Pennington*'s application to cases involving antitrust claims predicated on a litigant's fraud or misrepresentations is recurring. *See* Lawrence A. Sullivan, *Developments in the Noerr Doctrine*, 56 Antitrust L.J. 361, 361, 364 (1987) (the application of *Noerr* to *Walker Process*-type claims is one of the "recurring is-

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[11] Reflecting the conflict in the courts, commentators also have disagreed with one another as to *PREI*'s application to *Walker Process*-type claims. *Compare* Gary Myers, *Antitrust and First Amendment Implications of Professional Real Estate Investors*, 51 Wash. & Lee L. Rev. 1199, 1229 (1994) ("[f]raud or misrepresentations committed during or in connection with litigation should be treated under a separate analysis" than the one set forth in *PREI*) *with* Mark A. Lemley, *Antitrust Counterclaims in Patent and Copyright Infringement Cases*, 3 Tex. Intell. L.J. 1, 6 (1994) (arguing that "the reasoning of [*PREI*] would seem to apply with full force to [*Walker Process*] claims").

sues" facing the courts). This is particularly true with respect to the factual context in which that question arises here. As one commentator has observed: "Antitrust counterclaims are a significant part of intellectual property litigation. Many, perhaps most, patent infringement suits involve counterclaims by defendants alleging that the patentee has violated the antitrust laws, either by fraudulently obtaining and enforcing the patent, or by bringing the infringement action for anticompetitive purposes." Lemley, *supra*, at 1. *See also* Calkins, *supra*, at 204 ("[p]robably the most commonly pleaded antitrust counterclaim in patent infringement actions is the *Walker Process* claim"). This Court has addressed the scope of *Noerr-Pennington* immunity under the antitrust laws on numerous occasions since *Noerr*.[12] As noted, *PREI*—the latest of *Noerr*'s progeny—has only sparked additional litigation on this score, particularly in the intellectual property context.

The question presented also is important.[13] The Sherman Act is the bedrock of this Nation's antitrust laws. The reach of those laws—and scope of immunity from suit under those laws under the *Noerr-Pennington* doctrine—is of vital importance in the administration of those laws. Moreover, this case, like *Walker Process* itself, also involves the interplay between the antitrust and patent laws. *See Walker Process*, 382 U.S. at 179-180 (Harlan, J., concurring); III Phillip E. Areeda & Donald F. Turner, *Antitrust Law: An Analysis of Antitrust Principles and Their Application*, ¶¶ 704-708, at

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[12] *See PREI, supra; City of Columbia* v. *Omni Outdoor Advertising, Inc.*, 499 U.S. 365 (1991); *Allied Tube & Conduit Corp.* v. *Indian Head, Inc.*, 486 U.S. 492 (1988); *Otter Tail Power Co.* v. *United States*, 410 U.S. 366 (1973); *California Motor Transport Co.* v. *Trucking Unlimited, supra; Mine Workers* v. *Pennington, supra.*

[13] Here again, the parties agree. As FilmTec argued in seeking rehearing before the Ninth Circuit: "the Court's decision conflicts with the Federal Circuit on an important issue of law." Pet. for Reh. at 2.

114-146 (1978); Calkins, *supra*, at 176-178 & n.6. There is an inherent tension between those two sets of laws: the antitrust laws condemn monopoly, whereas "the very object" of the patent laws "is monopoly." *Bement* v. *National Harrow Co.*, 186 U.S. 70, 91 (1902). "Reconciling the interrelationship between the patent and antitrust laws has long been a topic of concern to courts as well as to commentators." *Handgards, Inc.* v. *Ethicon, Inc.*, 601 F.2d at 992 (citing additional authorities).

Still, this case—and the question presented—transcend the intellectual property or *Walker Process* context in which petitioner's antitrust claim arises here. As one leading commentator has observed, "*Walker* is * * * not a mere patent decision but an antitrust precedent of general applicability." Robert H. Bork, *The Antitrust Paradox* 353 (1978). As discussed next, a straightforward application of *Walker Process*, and a proper understanding of this Court's *Noerr* line, should result in the conclusion that *Noerr-Pennington* does not shield predatory litigation infected by fraud or misrepresentations, and that *PREI* does not permit summary dismissal of *Walker Process*-type claims without consideration of the alleged predatory acts of fraud or abuse.

III. THE FEDERAL CIRCUIT DECISION THAT RESPONDENT'S LAWSUIT IS SHIELDED BY *NOERR-PENNINGTON* REGARDLESS OF PETITIONER'S ALLEGATIONS OF FRAUD IS INCORRECT AND CONFLICTS WITH THIS COURT'S PRIOR PRECEDENTS

This Court's *Noerr-Pennington* doctrine rests principally on the First Amendment right of citizens or groups of citizens to petition the government for redress of their grievances. *See Noerr*, 365 U.S. at 138. This right is not absolute. Thus, as this Court made clear in *Noerr*, and has repeated on numerous occasions since then, the right to petition does not immunize activities that are a sham. 365 U.S. at 144. "There are many * * * forms of illegal and reprehensible practice"—

including misrepresentations and outright fraud—"which may corrupt the administrative or judicial processes and which may result in antitrust violations." *California Motor Transport*, 404 U.S. at 513. In this case, the Federal Circuit held that FilmTec's patent infringement suit was entitled to *Noerr* immunity without even considering Hydranautics' allegations that the suit was predicated upon fraud. This was error.

In *Walker Process*, the Court held that the defendant in a patent infringement action states a claim under the antitrust laws when it alleges that the patent on which plaintiff's suit was based was procured by fraud. 382 U.S. at 174.[14] The conduct prosecuted in *Walker Process*-type actions does not implicate *Noerr* because, as one court recently observed, "[h]owever broad the First Amendment right to petition may be, it cannot be stretched to cover petitions based on known falsehoods." *Whelan* v. *Abell*, 48 F.3d 1247, 1255 (D.C. Cir. 1995). Moreover, as the *Walker Process* Court itself recognized, there are compelling reasons for deterring individuals from committing fraud in the patent context which alone warrant application of the antitrust laws:

> A patent by its very nature is affected with a public interest. * * * [It] is an exception to the general

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[14] In *Walker Process*, a patent holder (Food Machinery) commenced a patent infringement action against Walker Process. Walker Process denied infringement and counterclaimed for a declaratory judgment that the patent was invalid. After discovery, it was determined that the patent had in fact expired. Walker Process counterclaimed that Food Machinery had violated § 2 of the Sherman Act by seeking to enforce a patent procured by fraud on the Patent Office. The District Court dismissed Walker Process's antitrust claim and the Court of Appeals affirmed. This Court reversed, finding that, on the basis of the pleadings, Walker Process had stated a Sherman Act claim. "Proof of [these] assertion[s]," the Court said, "would be sufficient to strip Food Machinery of its exemption [under the patent laws] from the antitrust laws." 382 U.S. at 173-174, 177. *Cf. United States* v. *Singer Mfg. Co.*, 374 U.S. 174 (1963) (commencement of series of unfounded patent infringement actions may result in antitrust liability).

> rule against monopolies and to the right to access to a free and open market. The far-reaching social and economic consequences of a patent, therefore, give the public a paramount interest in seeing that patent monopolies spring from backboards free from fraud or other inequitable conduct and that such monopolies are kept within their legitimate scope. [382 U.S. at 177 (internal quotation marks omitted).]

Walker Process is on all fours with this case in every material respect, was specifically embraced by this Court in *California Motor Transport*, and should have led the Federal Circuit to conclude that Hydranautics stated a valid antitrust claim. The Federal Circuit, however, concluded that consideration of this issue was effectively precluded by this Court's *PREI* test. This was error under *Walker Process* for the reasons stated in the preceding paragraph. It was also error under *Noerr* and its progeny, including *PREI*.

As the Ninth Circuit recognized in this case, " '[i]n a case involving a fraudulently obtained patent, that which immunized the predatory behavior from antitrust liability (the patent) is, in effect, a nullity because of the underlying fraud.' " App. 39a (quoting *Liberty Lake*, 12 F.3d at 159). That is the teaching of *Walker Process*, 382 U.S. at 177, and this Court's subsequent decision in *California Motor Transport*, 404 U.S. at 513. Thus, as one commentator has observed, "[a] suit to enforce a patent known to have been fraudulently obtained *must* be objectively baseless since, by definition, the fraud renders the patent invalid." Kobak, *supra*, at 210 (emphasis added). The fraud corrupts the litigation, deprives it of its legitimacy, and vitiates any *Noerr* immunity to which the underlying activity would otherwise be entitled under this Court's precedents.

The result is no different in the conventional litigation context. As the Court observed in *Bill Johnson's Restaurants, Inc.* v. *NLRB*, 461 U.S. 731 (1983):

> The first amendment interests involved in private litigation—compensation for violated rights and interests, the psychological benefits of vindication, public airing of disputed facts—are not advanced when the litigation is based on intentional *falsehoods* or on *knowingly frivolous claims.* Furthermore, since sham litigation by definition does not involve a bona fide grievance, it does not come within the first amendment right to petition. [*Id.* at 743 (internal quotation omitted) (emphasis added).]

Thus, "misrepresentations"—and other acts of fraud upon the process—"are not immunized when used in the adjudicatory process." *California Motor Transport*, 404 U.S. at 513.

This follows from a proper understanding of *Noerr.* As Judge Easterbrook has observed, *Noerr-Pennington* protects private efforts to petition the government for favorable rules of law and properly to enlist the adjudicatory processes to implement existing rules; but *Noerr* does not protect requests for unlawful action or "self-help to an unlawful end." *Premier Elec. Constr. Co.* v. *National Elec. Contractors Ass'n*, 814 F.2d 358, 375-376 (7th Cir. 1986). In this regard,

> a baseless protest or suit * * * is an effort * * * to do what the law forbids. [*California Motor Transport*] holds that such efforts, "baseless" because they claim more than the governing substantive rule allows, are unprotected by the *Noerr-Pennington* doctrine. So too with perjury and fraud in the context of litigation; no statute authorizes such tactics, and the first amendment does not protect efforts to defy (as opposed to change) the substantive rule of decision. [*Id.* at 375.]

In this case, Hydranautics has alleged facts which, taken as true—as they must be at this stage—establish that FilmTec has attempted to do what the law forbids: to enforce an ill-gotten patent in order to secure a monopoly position. *Noerr* does not shield FilmTec from liability for those acts.

The Federal Circuit overlooked all this and excluded *any* consideration of Hydranautics' allegations of fraud in determining whether its antitrust claim survived *PREI*'s two-part sham litigation test. This approach serves none of the ends of *Noerr*, erects *PREI* as a virtually insurmountable hurdle to *Walker Process*-type claims, and invites abuse of the administrative and judicial processes through predatory behavior such as that allegedly engaged in by FilmTec here. There is, as commentators have recognized, an inherent attraction to sham litigation as a means of monopolization because of the relatively low risks and high success rates associated with predation in this form. *See* Bork, *supra*, at 347-348. The decision below is accordingly an extremely dangerous precedent to allow to stand.

* * * *

The Federal Circuit decision below is in direct conflict with the Ninth Circuit decision on the *same* facts arising from an appeal from the *same* District Court order. The conflict concerns an important and recurring question of federal law—whether the *Noerr-Pennington* doctrine "permits the imposition of antitrust liability for a litigant's fraud or other misrepresentations"—a question which this Court expressly left open in *PREI*. 508 U.S. at 61-62 n.6. The conflict is presented here in a factual setting—the realm of *Walker Process*—which the lower courts have found particularly vexing. The Court should grant the writ and resolve the conflict.

CONCLUSION

For the foregoing reasons, this Court should grant the writ and reverse the decision below.

Respectfully submitted,

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APPENDICES

APPENDIX A

UNITED STATES COURT OF APPEALS
FOR THE FEDERAL CIRCUIT

94-1034

FILMTEC CORPORATION,
Plaintiff-Appellee,

v.

HYDRANAUTICS,
Defendant-Appellant.

Appealed from U.S. District Court
for the Southern District of California

Judge Thompson, Jr.

DECIDED: October 12, 1995

Before NEWMAN, PLAGER, and CLEVENGER, *Circuit Judges.*

Opinion for the court filed by Circuit Judge PLAGER. Circuit Judge NEWMAN filed a separate opinion in which she concurs in the judgment.

PLAGER, *Circuit Judge.*

This case addresses the tension between the rights of a patentee seeking a remedy and the rights of a competitor seeking recompense for litigation that is claimed to

be anticompetitive and violative of the antitrust laws. The district court denied the alleged infringer's motion to amend its answer to a complaint of patent infringement. The amendment was for the purpose of adding a counterclaim for antitrust violations. The district court also denied a motion for restitution for losses caused by a wrongful injunction arising out of the original infringement suit. We *affirm*.

BACKGROUND

This court has already told much of the rather tortuous story of the litigation surrounding this invention. *See FilmTec Corp. v. Hydranautics*, 982 F.2d 1546, 25 USPQ2d 1283 (Fed. Cir. 1992), *cert. denied*, 114 S.Ct. 85 (1993) (*FilmTec v. Hydranautics*); *see also FilmTec Corp. v. Allied-Signal Inc.*, 939 F.2d 1568, 19 USPQ2d 1508 (Fed. Cir. 1991) (*FilmTec v. Allied*). We repeat only what is necessary to understand this phase of the litigation.

In 1977, an inventor named John Cadotte, working for a not-for-profit research corporation called Midwest Research Institute (MRI) on a government-funded project, invented a reverse osmosis membrane used for the desalinization of water.[1] Soon thereafter, Cadotte and others established a for-profit corporation, FilmTec, for the purpose of commercially manufacturing reverse osmosis membranes. Cadotte filed for a patent on his membrane, and assigned all his rights in his invention to FilmTec. United States Patent No. 4,277,344 (the '344 patent) issued to Cadotte.

Hydranautics, defendant-appellant in this case, competes with plaintiff-appellee FilmTec in manufacturing and selling reverse osmosis membranes. Another competitor is

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[1] Cadotte's membrane belongs to class of membranes that contains meta-phenylenediamine (MPD) and trimesoyl chloride (TMC) and are hence also known as MPD/TMC membranes.

Allied-Signal Inc. (Allied). FilmTec has sued, separately, both Hydranautics and Allied for infringement of the '344 patent. It is necessary to describe the parallel litigation between FilmTec and Allied in order to appreciate fully the course of the litigation between FilmTec and Hydranautics.

FilmTec filed suit against Allied first, in April 1988. The suit, filed in the District Court for the District of Delaware, alleged that Allied's membranes infringed the '344 patent. FilmTec sought injunctive relief. The suit was subsequently transferred to the District Court for the Southern District of California. In its answer, Allied challenged FilmTec's ownership of the '344 patent. The district court issued a preliminary injunction ordering Allied to stop producing its allegedly infringing products pending the outcome of the patent litigation.

Allied appealed the preliminary injunction to this court. In July 1991 this court vacated the preliminary injunction and remanded the case for further proceedings. *FilmTec v. Allied*, 939 F.2d at 1569, 19 USPQ2d at 1509. Our remand instructed the trial court to look further at the question of whether ownership of the invention was ever in Cadotte. The answer to this question turned on whether FilmTec, as assignee of Cadotte, had acquired any rights in the '344 patent, a key factor in its entitlement to a preliminary injunction.

Meanwhile, in May 1990, shortly after the District Court had issued its preliminary injunction against Allied, FilmTec sued Hydranautics in the Southern District of California, alleging that Hydranautics' membrane also infringed the '344 patent. This case was placed before the same judge who was responsible for the proceedings between FilmTec and Allied. The judge bifurcated the trial of the issues of liability and damages, and in May 1991 conducted a bench trial on the liability issues. As part of its defense, Hydranautics, as did Allied, challenged whether FilmTec's title to the patent was fatally defective.

In August 1991, now having before it our remand in the Allied litigation, the district court in the Hydranautics case held that FilmTec had good title to the '344 patent, and enjoined Hydranautics from commercial activity that might infringe or induce infringement. In light of its finding that FilmTec had title to the '344 patent, the district court, in the litigation between FilmTec and Allied, reinstated the preliminary injunction barring Allied from manufacturing membranes covered by the '344 patent. Both Hydranautics and Allied appealed to this court.

In April 1992, while its case was on appeal here, Allied filed in the district court a separate complaint against FilmTec, alleging antitrust violations, specifically that FilmTec was fraudulently using the patent system to monopolize the market for such membranes. Allied also moved to consolidate its antitrust claim with the still pending patent infringement litigation against it, or, in the alternative, to amend its answer in that litigation to counterclaim violations of the antitrust laws.

FilmTec moved to dismiss Allied's antitrust complaint, arguing that Allied failed to state a claim on which relief could be granted because FilmTec was immune from antitrust liability on the basis of the *Noerr-Pennington* doctrine. *See Eastern R.R. Presidents Conf. v. Noerr Motor Freight, Inc.*, 365 U.S. 127 (1961) (*Noerr*); *United Mine Workers of America v. Pennington*, 381 U.S. 657 (1965) (*Pennington*). In August 1992 the district court denied FilmTec's motion to dismiss the antitrust claims, and granted Allied's motion to consolidate the antitrust and patent infringement litigations between FilmTec and Allied. The dispute between FilmTec and Allied was concluded eventually without further involvement by this court.

The appeal taken by Hydranautics from the adverse decision of August 1991 was decided by this court in

December 1992. *FilmTec v. Hydranautics,* 982 F.2d 1546, 25 USPQ2d 1283. We held, for reasons related to Cadotte's employment at the time the invention was conceived and in light of governing federal statute, that title to the invention was and always had been in the United States, and that FilmTec was without standing to sue on the '344 patent.

Hydranautics then attempted to follow Allied's strategy in countersuing for antitrust violations. In March 1993 Hydranautics filed in the district court an antitrust suit against FilmTec. Hydranautics' claim tracked that earlier filed by Allied. Again following Allied's strategy, Hydranautics moved in the alternative for leave to amend its answer in the infringement litigation in order to raise its antitrust claim as a counterclaim. (Hydranautics' proposal to consolidate its antitrust claim with that brought by Allied became moot when Allied and FilmTec settled.)

FilmTec responded by moving to dismiss the antitrust suit and arguing that the motion to amend by way of counterclaim in the pending patent litigation should be denied. With regard to the counterclaim, FilmTec argued that leave to amend should not be granted because the patent infringement litigation was immune from suit under the *Noerr-Pennington* doctrine, and because Hydranautics had unduly delayed before filing its motion to amend. With regard to the separate antitrust suit, FilmTec argued that, since Hydranautics' antitrust claims were compulsory counterclaims, Hydranautics was barred by Fed. R. Civ. P. 13(a) from bringing such claims at this stage in the litigation.

While these matters were pending before the trial judge, Hydranautics filed a motion seeking restitution for its monetary losses during the period the injunction against it, issued by the court in August 1991, was wrongfully in place, and for an injunction prohibiting FilmTec from enforcing all foreign patents based on the same invention.

The claim regarding the foreign patents has since been settled, and is not further discussed.

In August 1993 the district court denied all of Hydranautics' motions and granted FilmTec's motion to dismiss the antitrust claim. The dismissal of the antitrust action is on appeal to the Ninth Circuit. Hydranautics appeals to this court from the district court's denial of leave to amend its answer in the patent infringement litigation, and of its denial of its motion for restitution.

DISCUSSION

I. The denial of leave to amend Hydranautics' answer.

Rule 15(a) of the Federal Rules of Civil Procedure provides that a party may amend the party's pleading once as a matter of course at any time before a responsive pleading is served. "Otherwise a party may amend the party's pleading only by leave of court or by written consent of the adverse party; and leave shall be freely given when justice so requires." Fed. R. Civ. P. 15(a). Determining whether to give leave of court requires an exercise of discretion by the trial court. The exercise of that discretion is of course not unfettered, and the rule itself makes clear that leave shall be freely given when justice so requires. Unless a procedural matter is importantly related to an area of this court's exclusive jurisdiction, as a matter of convenience for district judges we will usually be guided by the views of the circuit in which the trial court sits with regard to general procedural issues. *In re Innotron Diagnostics,* 800 F.2d 1077, 1080 n.3, 231 USPQ 178, 180 n.3 (Fed. Cir. 1986); *Panduit Corp. v. All States Plastic Mfg. Co., Inc.,* 744 F.2d 1564, 223 USPQ 465 (Fed. Cir. 1984). In this case, that is the Ninth Circuit.

In the Ninth Circuit, the denial of a motion to amend is reviewed for abuse of discretion. *DCD Programs, Ltd. v. Leighton,* 833 F.2d 183, 186 (9th Cir. 1987)

(*Leighton*). The Ninth Circuit has made clear that "[i]n exercising its discretion, 'a court must be guided by the underlying purpose of Rule 15—to facilitate decision on the merits rather than on the pleadings or technicalities,' " *Leighton*, 833 F.2d at 186, quoting *United States v. Webb*, 655 F.2d 977, 979 (9th Cir. 1981).

The Ninth Circuit has articulated four concerns it brings to the review of a trial court's exercise of discretion regarding motions to amend a pleading. "These are: bad faith, undue delay, prejudice to the opposing party, and futility of amendment." *Leighton*, 833 F.2d at 186, citing *Loehr v. Ventura County Community College Dist.*, 743 F.2d 1310, 1319 (9th Cir. 1984), and *Howey v. United States*, 481 F.2d 1187, 1190 (9th Cir. 1973).

In his decision denying Hydranautics' motion to amend its answer, the trial judge did not address any of these concerns by name. It is clear, however, that the court's focus was on the issue of undue delay. The trial judge stated that "the previous patent infringement case has been fully litigated, appealed and the mandate has been spread. . . . FRCP Rule 15 will not be extended without limit if the motion is brought after a claim has been fully litigated on the merits through appeal."

To evaluate whether a party has unduly delayed in seeking to amend, we must take into account the particular dilemma faced by a defendant in a patent infringement suit who wants to bring an antitrust claim against the patentee. The basic test, with refinements to be explained below, of whether the patentee's infringement action may constitute an antitrust violation is whether the patentee's suit is a sham, meaning whether it is objectively baseless. *Professional Real Estate Investors, Inc. v. Columbia Pictures Indus., Inc.*, 113 S. Ct. 1920, 26 USPQ2d 1641 (1993) (*PRE*) (discussed *infra*). Obviously, if the patentee is successful in his infringement action, his suit is not baseless, and it cannot be a sham. The con-

verse is not true, however; just because the patentee loses, he does not lose his immunity from antitrust liability. Liability turns on whether the suit is a sham, that is, on the nature of and the underlying merits of the patentee's case.

If a defendant in its answer to the complaint in a patent infringement suit includes a counterclaim for antitrust violation, that pleading runs the risk of being without substantial basis in law or fact. The validity of the patent, including the manner in which the patent application was prosecuted, will bear directly on the question of whether the patentee's suit is a sham under the relevant legal test. Even though the facts necessary for that assessment typically may not be known until well into the litigation, that still does not eliminate the counterclaimant's responsibilities under Rule 11 and other rules related to abuse of the judicial process.

However, if the defendant files his answer and does not include an antitrust counterclaim, and learns only later of good grounds for such a counterclaim, he runs into the timing problem. If he is deemed to have waited too long he will be barred from filing his counterclaim, as Hydranautics was in this case.

Hydranautics knew early in its lawsuit with FilmTec that the question of FilmTec's title to the invention and its right to bring the infringement suit was at issue. Allied had raised the issue of FilmTec's title when it was sued by FilmTec in 1988, and in July 1991 this court had expressed serious reservations about FilmTec's ownership of the invention and the ensuing patent, serious enough to reverse the trial court's grant of a preliminary injunction in FilmTec's favor. *FilmTec v. Allied*, 939 F.2d at 1569, 19 USPQ2d at 1509.

On the other hand, the trial court in August 1991 had ruled squarely in FilmTec's favor regarding FilmTec's title to the patent, and until this court reversed that ruling in

December 1992, an effort by Hydranautics to add an antitrust counterclaim in face of that ruling might have been viewed as frivolous. Hydranautics filed its motion to add the counterclaim three months after this court's decision was rendered.

As noted, the district court denied Hydranautics motion on grounds of undue delay. In assessing whether that denial was an abuse of discretion, it is instructive to look at the district court's comparable treatment of Allied's antitrust counterclaim. At the time Allied filed its motion to add its counterclaim in April 1992, the suit against it had been pending since 1988. The district court, in response to our July 1991 remand, ruled in August 1991 in favor of FilmTec on the question of ownership of the patent. Despite that, the district court denied FilmTec's motion to dismiss Allied's antitrust counterclaim when FilmTec filed its motion to dismiss in August 1992.

It is difficult to see why in 1992 Allied, at a time when it appeared that FilmTec might be a winner in its infringement suit, should be considered to have properly filed its claim that FilmTec's suit was a sham, while Hydranautics in 1993, following this court's ruling that FilmTec could not sue on its patent, is not. The trial judge's view that Hydranautics waited too long by waiting until this court's decision on appeal had been announced seems inappropriate here. Until the appeal was decided, the question of whether FilmTec's suit could be deemed a sham was for all practical purposes foreclosed by the trial judge's ruling in FilmTec's favor.

That does not dispose of the matter, however. Even if the trial judge's stated grounds for denying the motion to add an antitrust counterclaim is insufficient, it is this court's duty to sustain the judgment if there are other grounds upon which it can be upheld. FilmTec argues that in the circumstances of this case, Hydranautics' motion to amend its answer was futile. FilmTec contends

that Hydranautics' proposed suit under the antitrust laws could not have succeeded because FilmTec's patent litigation was immune from suit as a matter of law. FilmTec's argument requires explanation.

In general, an effort to influence the exercise of government power, even for the purpose of gaining an anticompetitive advantage, does not create liability under the antitrust laws. In *Noerr*, the Supreme Court held immune from antitrust liability a combination of rail freight interests which was formed in order to have legislation passed that would grant the members of the combination a competitive advantage over truckers. *Noerr*, 365 U.S. at 145. The Supreme Court has read *Noerr* broadly: "*Noerr* shields from the Sherman Act a concerted effort to influence public officials regardless of intent or purpose." *Pennington*, 381 U.S. at 670. "Joint efforts to influence public officials do not violate the antitrust laws even though intended to eliminate competition." *Id.* The Supreme Court has applied the *Noerr-Pennington* doctrine to courts and administrative agencies. *California Motor Transport Co. v. Trucking Unlimited*, 404 U.S. 508, 510-11 (1972) (*California Transport*). The *Noerr-Pennington* doctrine thus protects those who attempt to use the power of government organs, including the judiciary, to further private ends.

There is an important exception: the *Noerr-Pennington* doctrine does not protect litigation from suit under the antitrust laws if the litigation is a "sham." The Supreme Court in *Noerr* recognized that if an action "ostensibly directed toward influencing governmental action, is a mere sham to cover what is actually nothing more than an attempt to interfere directly with the business relationships of a competitor [then] the application of the Sherman Act would be justified." *Noerr*, 365 U.S. at 144. *See also California Transport*, 404 U.S. at 511-16 (remanding for determination of whether the sham exception to the general immunity from the antitrust laws applied).

So the question is whether or not FilmTec's infringement litigation could be characterized as a sham. The Supreme Court has recently provided a two-tiered definition of sham litigation.

> First, the lawsuit must be objectively baseless in the sense that no reasonable litigant could realistically expect success on the merits. If an objective litigant could conclude that the suit is reasonably calculated to elicit a favorable outcome, the suit is immunized under *Noerr*, and an antitrust claim premised on the sham exception must fail.

PRE, 113 S.Ct. at 1928, 26 USPQ at 1646 (footnote omitted). The second tier, to be reached "only if challenged litigation is objectively meritless," *id.*, is "whether the baseless lawsuit conceals an attempt to interfere *directly* with the business relationships of a competitor through the use of the governmental *process*—as opposed to the *outcome* of that process—as an anticompetitive weapon." *Id.*, 113 S.Ct. at 1928, 26 USPQ2d at 1646 (emphasis in original) (citations omitted).

The first question is thus whether FilmTec's patent infringement suit was objectively baseless. The actual outcome of that suit, although instructive, is not determinative: "The court hearing the antitrust claim must make its own assessment of the objective merits of the predicate suit . . . ." *Boulware v. Nevada Dep't of Human Resources*, 960 F.2d 793, 799 (9th Cir. 1992) (*Boulware*). Had FilmTec ultimately prevailed in its infringement suit, Hydranautics would have a difficult time establishing that FilmTec's suit was a sham. FilmTec would therefore enjoy *Noerr-Pennington* immunity, even if its sole purpose in bringing suit was monopolization of the market. *See PRE*, 113 S.Ct. at 1928 n.5, 26 USPQ2d at 1646 n.5. But FilmTec lost, which complicates the analysis.

On the one hand, the Supreme Court has cautioned that "when the antitrust defendant has lost the under-

lying litigation, a court must resist the understandable temptation to engage in *post hoc* reasoning by concluding that an ultimately unsuccessful action must have been unreasonable or without foundation." *Id.* (citations omitted). On the other hand, a preliminary success on the merits does not necessarily preclude a court from concluding that litigation was baseless. *See Boulware*, 960 F.2d at 788-89.

The facts of this case have been established by prior litigations, and are therefore law of the case. Because there is no dispute over the facts, the question of whether or not a cause of action is reasonable or an abuse of process is a question of law. *See PRE*, 113 S.Ct. at 1930, 26 USPQ2d at 1647 ("Where, as here, there is no dispute over the predicate facts of the underlying legal proceeding, a court may decide probable cause as a matter of law.") (citations omitted). We review questions of law without deference to the trial forum.

As noted, the litigation history of the '344 patent is long. This court has considered title to the patent on two occasions. In the first case, Allied appealed the district court's grant of a preliminary injunction. Due to the state of the record, we confessed that "we do not know who held legal title to the invention and to the patent application". *FilmTec v. Allied*, 939 F.2d at 1573, 19 USPQ2d at 1512. Nonetheless, we made it known that we had "a serious question about the nature of the title, if any, in FilmTec." *Id.*, 939 F.2d at 1571-72, 19 USPQ2d at 1511. Confronting only the issue then before us, we concluded that "[i]n our view of the title issue, it cannot be said on this record that FilmTec has established a reasonable likelihood of success on the merits." *Id.*, 939 F.2d 1574, 19 USPQ2d at 1513.

Subsequently, in *FilmTec v. Hydranautics*, 982 F.2d 1546, 25 USPQ2d 1283, this court was squarely confronted with the question of whether FilmTec had title to the '344 patent. As a matter of statute and contract,

we concluded that if the invention was conceived while Cadotte was at MRI, then FilmTec did not have title. Only if Cadotte conceived the membrane after he left MRI could FilmTec's title be sound. Thus the issue before the court was "whether the invention of the '344 patent was made or conceived while Cadotte was at MRI . . . ." *Id.*, 982 F.2d at 1550, 25 USPQ2d at 1287.

While he was at MRI, Cadotte had discovered a reverse osmosis membrane with essentially the same chemical composition as that claimed by the '344 patent. At MRI, however, the performance of Cadotte's reverse osmosis membrane differed somewhat from the performance Cadotte ultimately claimed in the '344 patent. FilmTec argued that this difference in performance made the MRI membrane a different invention from that covered by the '344 patent. This court disagreed: we held that the plain language of statute and contract assigned all rights in inventions conceived at MRI to the government, and Cadotte had conceived the membrane while he was at MRI.

As noted, the Supreme Court has forbidden us to equate loss on the merits with objective unreasonableness. The Court requires an inquiry into the reasonableness of the antitrust defendant's litigation when filed. "[S]ham litigation must constitute the pursuit of claims so baseless that no reasonable litigant could realistically expect to secure favorable relief." *PRE*, 113 S.Ct. at 1929, 26 USPQ2d at 1647. Conversely, "[t]he existence of probable cause to institute legal proceedings precludes a finding that an antitrust defendant has engaged in sham litigation." *Id.*

Although the question is not without some doubt, we conclude that, taking all of the facts and circumstances into account, it cannot be said that FilmTec's suit against Hydranautics was objectively baseless. The issues on which this litigation hinged, precisely what Cadotte invented, and when, were genuine. On the basis of its

understanding of those issues, FilmTec, not without reason, staked a claim to owning the '344 patent as Cadotte's assignee. The trial judge, after full consideration, ruled for FilmTec on this issue. Although that is not controlling, and indeed we found it to be erroneous, it does support the conclusion that FilmTec's theory was more than a sham. In this light, and in view of all that has transpired in the case, allowing Hydranautics to amend its answer by adding an antitrust counterclaim would be a futile act; the decision of the trial court in denying the motion to amend is affirmed.[2]

II. Restitution

After its final success on the merits, Hydranautics moved for an order awarding restitution for the wrongful injunction. Hydranautics argued that FilmTec had been unjustly enriched by the injunction that prohibited Hydranautics from making reverse osmosis membranes. The district court found restitution to be unavailable for three reasons. First, Hydranautics transferred no property to FilmTec pursuant to the injunction. Second, the district court stated that, until this court held otherwise, FilmTec was considered to be the owner of the '344 patent. Third, the district court was of the view that Hydranautics was not due restitution for whatever busi-

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[2] In light of our holding that FilmTec's patent infringement suit was not objectively baseless, we need not decide whether FilmTec's suit was in bad faith or otherwise motivated by anticompetitive intent. *See Loctite Corp. v. Ultraseal Ltd.*, 781 F.2d 861, 228 USPQ 90 (Fed. Cir. 1985). Nor need we decide whether *Noerr-Pennington* immunity is vitiated by fraud on the patent office. *See Walker Process Equip., Inc. v. Food Machinery & Chem. Corp.*, 382 U.S. 172, 147 USPQ 404 (1965). Thus, we again avoid determining what effect *PRE* has had on *Walker Process* and its progeny. *See Carroll Touch, Inc. v. Electro Mechanical Sys., Inc.*, 15 F.3d 1573, 1583 n.10, 27 USPQ2d 1836, 1845 n.10 (Fed. Cir. 1993); James B. Kobak, Jr. *"Professional Real Estate Investors* and the Future of Patent-Antitrust Litigation: *Walker Process* and *Handgards* Meet *Noerr-Pennington,"* 63 Antitrust L.J. 185 (1994).

ness losses it suffered during the pendency of the injunction, since these were more properly considered as damages. The district court denied Hydranautics' motion for restitution, and Hydranautics appeals.

We assume, without deciding, that the first ground cited by the district court would not prevent a litigant, as a matter of law, from recovering restitution upon a proper showing. *See Arkadelphia Milling Co. v. St. Louis S.W. Ry. Co.*, 249 U.S. 134, 145 (1919); *Baltimore & Ohio R.R. v. United States*, 279 U.S. 781, 785-86 (1929); *Maryland Dep't of Human Resources v. United States Dep't of Agriculture*, 976 F.2d 1462, 1482-83 & n.19 (4th Cir. 1992); *National Kidney Patients Ass'n v. Sullivan*, 958 F.2d 1127, 1136-37 (D.C. Cir. 1992); *accord Iconco v. Jensen Constr. Co.*, 622 F.2d 1291 (8th Cir. 1980); *Connelly Containers, Inc. v. Bernard*, 717 F.Supp. 202, 210 (S.D.N.Y. 1989). *But cf. Greenwood County v. Duke Power Co.*, 107 F.2d 484, 487-88 (4th Cir. 1939), *cert. denied*, 309 U.S. 667 (1940); *United Motors Service, Inc. v. Tropic-Aire, Inc.*, 57 F.2d 479, 483-84, 12 USPQ 412, 416 (8th Cir. 1932).

Nor would the the second ground cited—that FilmTec was the owner of the '344 patent—support a denial of a restitutionary remedy. The district court considered that FilmTec owned the '344 patent until this court, reversing the district court, held that the United States owned the patent. That is not correct. With regard to the patent in suit, FilmTec never possessed any rights in the '344 patent that were enforceable against Hydranautics. As this court previously held,

> when the invention was conceived by Cadotte, title to that invention immediately vested in the United States by operation of law. He had no right to assign it to FilmTec; the statute had divested him of all of his interest.

FilmTec v. Hydranautics, 982 F.2d at 1553, 25 USPQ2d at 1290.

The district court's third ground for denying restitution was that Hydranautics had not made the requisite showing for such recovery, and that Hydranautics effectively sought damages for its alleged loss of business to FilmTec while the injunction was in place. The district court recognized that the remedy of restitution is not a substitute for an action in damages, and concluded that restitution was unavailable in this case based on the court's broad familiarity with the evidence in both the Hydranautics and Allied Signal litigation, including evidence concerning the nature of the parties' products and the market for them. Moreover, although Hydranautics was denied a stay of injunction pending appeal by the district court, Hydranautics did not pursue a stay before this court. *See* Fed. R. Civ. P. 62(g); Fed. R. App. P. 8(a)-(b). Under these circumstances, and on the record before us, we cannot say that the district court clearly erred in disallowing restitution in this case. We therefore affirm the district court's denial of Hydranautics' Motion for Restitution.

CONCLUSION

The order of the district court that denied Hydranautics leave to amend its answer to assert violations of the antitrust laws, and denied Hydranautics' Motion for Restitution, is affirmed.

AFFIRMED

NEWMAN, *Circuit Judge*, concurring in the judgment.

I concur in the affirmance of the district court's judgment, although I do not share the majority's reasoning.

On the issue of restitution, the district court correctly observed that there was no transfer of money or property from Hydranautics to FilmTec after the judgment in favor of FilmTec, and that Hydranautics' requested recovery is simply a request for damages during the period between trial and appeal. The unavailability of damages for this period reflects longstanding practice and policy. The railroad and utility rate cases wherein overcharges were restored to the customer, *viz. Arkadelphia Milling Co. v. St. Louis S.W. Ry. Co.*, 249 U.S. 134 (1919) and *Baltimore & Ohio Ry. Co. v. United States*, 279 U.S. 781 (1929), and cases wherein government agencies recovered overpayments based on statute or regulation, *viz. Maryland Dep't of Human Resources v. United States Dep't of Agriculture*, 976 F.2d 1462 (4th Cir. 1992) and *National Kidney Patients Ass'n v. Sullivan*, 958 F.2d 1127 (D.C. Cir. 1992), *cert. denied*, 113 S. Ct. 966 (1993), are not authority, even in *dictum*, for recovery of losses of the nature of damages resulting from the decision at trial.

Restitution is a standard remedy for breach of contract and for the return of specific property and monies paid. The district court correctly held that Hydranautics' business losses during the period between trial and appeal are not directly recoverable as damages and thus are not indirectly recoverable in the guise of restitution. This implements the longstanding rule, as stated in *Russell v. Farley*, 105 U.S. 433 (1881), that "[w]here no bond or undertaking has been required, it is clear that the court has no power to award damages sustained by either party in consequence of the litigation, except by making such a decree in reference to the costs of the suit as it may deem equitable and just." *See* Restatement of Restitution § 74 (1937) and Comment a. This practice reflects the

policy that legitimate business activity upon favorable judgment is not a wrong. As Lord Mansfield put it, restitution "lies for money paid by mistake; or upon a consideration which happens to fail; or for money got through imposition (express or implied); or extortion; or oppression; or an undue advantage taken of the plaintiff's situation, contrary to the laws made for the protection of persons under those circumstances." *Moses v. McFerlan*, 97 Eng. Rep. 676, 681 (K.B. 1760), *cited in* Richard A. Epstein, *The Ubiquity of the Benefit Principle*, 67 S. Cal. L. Rev. 1369, 1370 & n.6 (1994).

I would affirm the district court's holding, not on the ground of absence of clear error, but as a matter of correct understanding and application of the law.

APPENDIX B

[Filed Aug. 16, 1993]

UNITED STATES DISTRICT COURT
SOUTHERN DISTRICT OF CALIFORNIA

Civ. No. 90-563GT

FILMTEC CORPORATION, a Delaware corporation,
Plaintiff,

v.

HYDRANAUTICS, a California corporation,
Defendant.

Civil No. 93-476GT

HYDRANAUTICS,
Plaintiff,

v.

FILMTEC CORPORATION,
Defendant.

ORDER

On July 12, 1993, Hydranautics' Motion to Consolidate, or in the alternative, Leave to Amend, Hydranautics' Motion for Restitution and Other Relief, and FilmTec Corporation's ("FilmTec") Motion to Dismiss Hydranautics' complaint came on for hearing before the Court. The Court has fully considered these matters, including review of the moving papers, the oppositions, the replies, the authorities cited therein, and the arguments presented. The moving papers, oppositions, and

replies filed in *Hydranautics v. FilmTec*, case #93-476GT, are deemed filed in *FilmTec v. Hydranautics*, case #90-563GT.

BACKGROUND

Hydranautics Corporation ("Hydranautics") filed two motions. The first is a motion to consolidate its present complaint, case #93-476GT with the case of *Allied-Signal, Inc. v. FilmTec Corp* ("Allied-Signal"), or in the alternative, leave to amend its answer to include the present complaint as a counterclaim in the previous case, *FilmTec Corp. v. Hydranautics*, case # 90-563GT. Hydranautics' second motion requests restitution for wrongful injunction and injunctive relief. FilmTec also filed a motion to dismiss Hydranautics' present complaint.

On May 3, 1990, FilmTec filed suit in this Court against Hydranautics for infringement of U.S. Patent No. 4,277,344 ("'344 patent"). The '344 patent related to an invention for certain "reverse osmosis membranes" used in the process of desalinization. After a lengthy trial and full litigation, this Court found in FilmTec's favor on August 30, 1991 and granted FilmTec's request for a permanent injunction. The permanent injunction issued on September 17, 1991. Hydranautics appealed.

On December 29, 1992, the Court of Appeals for the Federal Circuit reversed this Court on the ground that title to the invention belonged to the United States, not FilmTec. *FilmTec v. Hydranautics*, 982 F.2d 1546 (Fed. Cir. 1992). After denying FilmTec's Petition for Rehearing and Suggestion for Rehearing En Banc, the Court of Appeals issued its mandate on March 25, 1993. On April 1, 1993, this Court spread the Mandate and dissolved the permanent injunction. On June 15, 1993, FilmTec petitioned the Supreme Court of the United States for writ of certiorari.

Hydranautics' present action asserts antitrust claims against FilmTec under § 2 of the Sherman Act. The

complaint asserts that FilmTec pursued "predatory patent infringement actions . . . in bad faith, with the specific intent to exclude HYDRANAUTICS and ALLIED from the relevant market and obtain and exercise monopoly power in said market, without any reasonable belief by FILMTEC that it has proper title to the '344 patent."

CONCLUSIONS OF LAW

A. Hydranautics' Motion to Consolidate/Leave to File Counterclaim

1. Consolidation

Hydranautics' present action asserts anti-trust action claims against FilmTec. In its Motion to Consolidate or for Leave to File Counterclaim, Hydranautics seeks to consolidate this action with *Allied-Signal, Inc. v. FilmTec Corp.* ("Allied-Signal"). This motion is moot because the Allied-Signal case has been dismissed per stipulation between the parties, Allied-Signal and FilmTec.

2. Leave to File Counterclaim

In the alternative, Hydranautics seeks to amend its answer in the previous patent infringement case (case #90-563) to include, as a counterclaim, the present allegations of attempted monopolization and monopolization. However, the previous patent infringement case has been fully litigated, appealed and the mandate has been spread.

The general rule is that leave to amend should be freely granted. However, at some point there must be finality. *Matter of Beverly Hills Bancorp*, 752 F.2d 1334, 1338 (9th Cir. 1984). FRCP Rule 15 will not be extended without limit if the motion is brought after a claim has been fully litigated on the merits through appeal. *Id.* Although *Beverly Hills* involved a plaintiff asserting a new claim, the reasoning is equally applicable to a defendant trying to assert a new counterclaim after

an action has been fully litigated through appeal. Accordingly, Hydranautics' Motion for Leave to File a Counterclaim is denied.

Hydranautics' argues that there has not been a final judgment entered in accordance with FRCP Rule 58 in the previous infringement action. Hydranautics claims that since a separate judgment, apart from the August 30, 1991 Judgment and Permanent Injunction order was not entered on the docket, there has not been a final judgment in the infringement action. This argument is not well taken.

The purpose of Rule 58's separate entry requirement is to create greater certainty in establishing the time limit for appealing final orders. *Hollywood v. City of Santa Maria*, 886 F.2d 1228, 1231 (9th Cir. 1989). The separate entry requirement was intended to add clarity to the time requirement, not confusion. *Id.* Hydranautics appealed this Court's August 30, 1991 Judgment. In its Notice of Appeal, Hydranautics states it is appealing "the final judgment entered in this action. . . ." Hydranautics can not now assert that the August 30, 1991 Judgment was not final. Moreover, the Court of Appeals for the Federal Circuit issued its mandate on March 25, 1993 and the mandate was spread by the Court on April 1, 1993.

B. FilmTec's Motion to Dismiss

FilmTec moves for an order dismissing the complaint filed by Hydranautics pursuant to FRCP Rule 12(b)(6), failure to state a claim for which relief may be granted. FilmTec asserts that Hydranautics' complaint for attempted monopolization and monopolization should be dismissed because all the claims were compulsory counterclaims under FRCP 13(a) and should have been raised in the previously litigated patent infringement suit.

1. Standard for Compulsory Counterclaims

FRCP Rule 13(a) states in relevant part:

> (a) Compulsory Counterclaims. A pleading shall state as a counterclaim any claim which at the time of serving the pleading the pleader has against any opposing party . . . .

Rule 13(a) requires a defendant to state as a counterclaim any claim he may have against the plaintiff that "arises out of the transaction or occurrence that is the subject matter of the plaintiff's claim." *Seattle Totems, Etc. v. National Hockey League,* 652 F.2d 852, 854 (9th Cir. 1981). The purpose of this requirement is "to prevent multiplicity of actions and to achieve resolution in a single lawsuit of all disputes arising out of common matters." *Southern Construction Co. v. Pickard,* 371 U.S. 57, 60 (1962). Rule 13(a) bars a party from filing a claim in another forum which should have been asserted as a counterclaim in the federal action. *Id.*

Many courts rely on the "logical relationship" test to determine whether a counterclaim is compulsory. *Union Paving Co. v. Downer Corp.,* 276 F.2d 468 (9th Cir. 1960); *Pochiro v. Prudential Ins. Co. of America,* 827 F.2d 1246 (9th Cir. 1987). A counterclaim is compulsory when "the same operative facts serve as a basis of both claims or the aggregate core of facts upon which the claim rests activates additional legal rights, otherwise dormant in the defendant." *Republic Health Corp. v. Lifemark Hospitals of Florida,* 755 F.2d 1453, 1455 (11th Cir. 1985).

2. Hydranautics' Complaint

Hydranautics' complaint is "logically related" to the previously litigated patent infringement suit. In the complaint Hydranautics alleges the following predatory and anticompetitive acts by FilmTec:

FilmTec applied for a patent on Cadotte's invention when it knew or should have known that Cadotte had assigned, through a previous employer, all rights to the invention to the government.

FilmTec falsely and fraudulently told the government that the '344 patent was first conceived and reduce to practice by Cadotte after Cadotte joined FilmTec when FilmTec knew or had reason to know that the patent had been conceived and reduced to practice at Cadotte's previous employment.

FilmTec instituted various patent infringement actions with the specific intent to exclude Hydranautics and others from the market without any reasonable belief that FilmTec had proper title to the '344 patent.

FilmTec sought and obtained, in bad faith, injunctions precluding Hydranautics and others from making, using or selling the membranes in the United States with the specific intent to exclude Hydranautics and Allied from the relevant market and to exercise monopoly power without any reasonable belief by FilmTec that it had proper title to the '344 patent.

Basically, the underlying patent infringement suit hinged on the validity of the '344 patent. Validity of the '344 patent hinged on whether Cadotte invented the membrane under a contract between his previous employer and the United States. Validity of the '344 patent also hinged on whether Cadotte and FilmTec kept the invention a secret in order to obtain the patent. This Court found Cadotte to be credible and explicitly rejected Hydranautics' contention that Cadotte and FilmTec defrauded the Patent Office. (Judgment, pp. 20-21). Thus, Hydranautics fully litigated whether FilmTec and Cadotte concealed their knowledge of the invention from the Patent Office.

Hydranautics now asserts antitrust claims predicated upon many of the same assertions regarding title to the '344 patent that it raised as a defense to the prior infringement suit. As outlined above, Hydranautics claims FilmTec knew that Cadotte invented the membrane while under contract with the government and wrongfully instituted patent infringement suits without a reasonable belief that it owned the '344 patent. Hydranautics raised and fully litigated these same issues in the patent infringement suit. Accordingly, the antitrust claims asserted in the present complaint are compulsory counterclaims that should have been raised in the original patent infringement suit. Therefore, FilmTec's Motion to Dismiss Hydranautics' complaint is granted.

C. Hydranautics' Motion for Restitution and Injunction

Hydranautics also filed a Motion for Restitution for Wrongful Injunction and Other Relief. Hydranautics seeks monetary restitution from FilmTec because of the permanent injunction which was reversed on appeal. Hydranautics seeks the monies received by FilmTec for sales and profits during the period of the injunction, claiming that these monies rightfully belong to Hydranautics. Hydranautics also requests the right to discovery to ascertain the amount of restitution it is owed. In addition, Hydranautics seeks an order enjoining FilmTec from enforcing title to the '344 patent in other jurisdictions and from enforcing related, equivalent foreign patents.

1. Restitution

As a preliminary matter, a district court may, after being reversed by the appellate court, order restitution. *Caldwell v. Puget Sound Elec. Appren. & Training Trust*, 824 F.2d 765, 767 (9th Cir. 1987). However, the restitution must be consistent with the mandate. *Id.* The district court cannot grant relief beyond the scope of the

mandate, but it may act upon matters left open by the mandate. *Id.*

Restitution is an equitable remedy based upon the theory of unjust enrichment. Restitution is restoring the party to the position it formerly occupied either by the return of property or by the receipt of its equivalent in money. 66 Am. Jur. 2d *Restitution and Implied Contracts* § 1 (1973). Unjust enrichment, a prerequisite for obtaining restitution, is defined as "the unjust retention of a benefit to the loss of another, or the retention of money or property of another against the fundamental principles of justice or equity and good conscience." 66 Am. Jur. 2d *Restitution and Implied Contracts* § 3 (1973). Accordingly, restitution is limited to those instances wherein money or property was transferred by the party seeking restitution to the direct benefit of the party that obtained the injunction. *See Arkadelphia Milling Co. v. St. Louis Sw. Ry.*, 249 U.S. 134, 145-47 (1919); *Middlewest Motor Freight Bureau v. United States,* 433 F.2d 212 (8th Cir. 1970), *cert. denied* 409 U.S. 999 (1971).

Restitution, in this case, is inappropriate. Hydranautics did not transfer any money or property to FilmTec as a result of the injunction. In fact, FilmTec was considered the legal owner of the '344 patent until the Federal Circuit's reversal of this Court's Judgment. At that time, the United States was deemed the legal owner of the patent, not Hydranautics. Hydranautics asserts that it is entitled to monies paid to FilmTec by purchasers of the membranes. Hydranautics claims these purchasers may have bought from them but for the injunction. However, the recovery of business losses, such as lost sales and profits, as a result of the injunction is a claim for damages not restitution. Therefore, Hydranautics motion for restitution is denied.

2. Injunction

Hydranautics also moves for injunctive relief. Hydranautics requests that FilmTec be enjoined from enforcing

rights to the underlying invention *anywhere* in the world. Enjoining FilmTec from enforcing the '344 patent within the United States is unnecessary. Hydranautics has an adequate remedy at law in the United States. As far as equivalent foreign patents are concerned, this court declines enjoining the enforcement of those patents. To do so requires a finding that the issues in the United States and foreign actions are the same and that the resolution of the U.S. action is dispositive of the foreign action. Accordingly, Hydranautics' motion for injunctive relief is denied.

IT IS ORDERED that:

Hydranautics' Motion to Consolidate, or in the alternative, Leave to File Counterclaim is DENIED. Hydranautics' Motion to Consolidate its complaint with the Allied Signal action is moot. The Allied Signal action was dismissed. Additionally, Leave to Amend its answer in the previous infringement action to add a counterclaim is inappropriate. The mandate in the infringement action was spread and final judgment was entered.

FilmTec's Motion to Dismiss Hydranautics' complaint for attempted monopolization and monopolization is GRANTED. The claims are compulsory counterclaims pursuant to Federal Rule of Civil Procedure 13(a).

Hydranautics' Motion for Restitution is DENIED. Hydranautics did not transfer any money or property to FilmTec.

Hydranautics' Motion for Injunctive Relief is DENIED. Hydranautics has an adequate remedy at law if FilmTec tries to enforce any rights to the '344 patent in the United States. This Court declines enjoining the enforcement of any rights to the '344 patent in foreign countries.

IT IS SO ORDERED.

Date 8-13-93

/s/ Gordon Thompson, Jr.
GORDON THOMPSON, JR.
United States District Judge

APPENDIX C

UNITED STATES COURT OF APPEALS
FOR THE FEDERAL CIRCUIT

94-1034

FILMTEC CORPORATION,
Plaintiff-Appellee,

v.

HYDRANAUTICS,
Defendant-Appellant.

ORDER

A combined petition for rehearing and suggestion for rehearing in banc having been filed by the APPELLANT, and a response thereto having been invited by the court and filed by the APPELLEE, and the petition for rehearing having been referred to the panel that heard the appeal, and thereafter the suggestion for rehearing in banc and response having been referred to the circuit judges who are in regular active service,

UPON CONSIDERATION THEREOF, it is

ORDERED that the petition for rehearing be, and the same hereby is, DENIED and it is further

ORDERED that the suggestion for rehearing in banc be, and the same hereby is, DECLINED.

The mandate of the court will issue on January 30, 1996.

FOR THE COURT,
FRANCIS X. GINDHART
Clerk

Dated: January 23, 1996

By /s/ Diane M. Frye
DIANE M. FRYE
Chief Deputy Clerk

APPENDIX D

UNITED STATES COURT OF APPEALS
FOR THE NINTH CIRCUIT

No. 93-56426
D.C. No. CV-93-00476-GT

HYDRANAUTICS,
Plaintiff-Appellant,

v.

FILMTEC CORPORATION,
Defendant-Appellee.

Appeal from the United States District Court
for the Southern District of California

Gordon Thompson, Jr., District Judge, Presiding

Argued and Submitted
March 9, 1995—Pasadena, California

Filed November 15, 1995

Before: Mary M. Schroeder and Andrew J. Kleinfeld,
Circuit Judge, and Samuel P. King, District Judge.*

Opinion by Judge Kleinfeld

OPINION

KLEINFELD, Circuit Judge:

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* The Honorable Samuel P. King, Senior United States District Judge, for the District of Hawaii, sitting by designation.

We must decide whether an antitrust claim is a compulsory counterclaim in a prior patent infringement suit. We conclude that it is not, and reverse the district court's dismissal of the complaint.

I. Facts.

Under the Saline Water Conversion Act of 1971, the government was to contract for water desalinization research. Title to any inventions resulting from the research was to vest in the United States, and any patents were to be issued to the United States, in order to make discoveries available to the general public. *FilmTec v. Hydranautics*, 982 F.2d 1546, 1547-48 (Fed. Cir. 1992). The government would pay scientists to do research, and the benefits were to go to the general public, not just to the researchers.

A scientist named John Cadotte was employed by a nonprofit institution to perform desalinization research under a research contract with the government made pursuant to the Saline Water Conversion Act. *Id.* at 1548. While so employed, he conceived of three new types of membranes for reverse osmosis desalinization. *Id.* at 1548-49. The nonprofit research institution did not report Mr. Cadotte's findings to the government. *Id.* Mr. Cadotte and others at the nonprofit formed a for-profit corporation, FilmTec, and left the nonprofit. *Id.* Mr. Cadotte then essentially duplicated at his new for-profit corporation the experiments he had carried out at the nonprofit, with a slight refinement. He obtained a patent, assigned to FilmTec, on the reverse osmosis membranes so developed. *Id.*

Hydranautics subsequently began manufacturing similar membranes. FilmTec sued Hydranautics for patent infringement, and won in district court. *Id.* The district court held that FilmTec's patent was valid, and that Hydranautics had willfully infringed it. *Id.* The district court issued a permanent injunction for the statutory term of FilmTec's patent prohibiting Hydranautics from making or selling the patented films.

The Federal Circuit reversed. *Id.* at 1550-54. The basis for the reversal was that the 1971 Saline Water Conversion Act required that any "patents . . . resulting from such research developed by Government expenditure will . . . be *available to the general public.*" *Id.* at 1550 (alteration in original) (quoting Saline Water Conversion Act of 1971, Pub.L. No. 92-60, 85 Stat. 159 (1971)). The Federal Circuit held that "Congress intended that inventions made under the Contract be available to the 'general public,' of which Hydranautics is a member." *Id.* at 1551. The Federal Circuit concluded as a matter of law that the patented invention was conceived while Mr. Cadotte was employed on the government research contract at the nonprofit research institution. *Id.* at 1551-54.

Mr. Cadotte had testified that he was not particularly encouraged by his November experiments, while he was at the nonprofit, and did not even remember them when he reacted the same substances in the same manner, in the same proportions, for the same amount of time, but with a reduced drying temperature, three months later, in February. *Id.* at 1553. The Federal Circuit did not reach the question of fact regarding intentional fraud, "difficult as it is for us to understand how February experiments on the same compositions were not a direct sequel to the experiments three months earlier." *Id.* Review of this factual determination was not necessary to the holding, because "when the invention was conceived by Mr. Cadotte, title to that invention immediately vested in the United States by operation of law." *Id.* at 1553.

After winning a reversal of the patent infringement judgment, Hydranautics sued FilmTec in a separate lawsuit in district court, for antitrust violations. The complaint in this second lawsuit is the one before us. It was filed under the Clayton and Sherman Acts, 15 U.S.C. §§ 15, 26 and 15 U.S.C. § 2, alleging that FilmTec had engaged in "predatory" patent litigation. The district

court dismissed it as failing to state a claim upon which relief could be granted, under Federal Rule of Civil Procedure 12(b)(6).

The complaint, filed in March of 1993, alleges that until September 1991, Hydranautics made reverse osmosis membranes of the patented type, but from the time the permanent injunction in the infringement suit issued, in September 1991, until the mandate was spread from the Federal Circuit decision in April 1993, it had been prevented from doing so. Another company, Allied-Signal, had also made such membranes, and had been enjoined from continuing to do so in 1990. FilmTec had sued Allied-Signal as well as Hydranautics for infringement. *FilmTec*, 982 F.2d at 1549 & n.2.

Hydranautics' complaint alleges that FilmTec engaged in predatory acts. The alleged predatory acts were that (1) FilmTec had applied for a patent on the reverse osmosis membrane when it knew that the United States owned the patent; (2) FilmTec falsely told the government that the invention had first been conceived after Mr. Cadotte left the non-profit and joined FilmTec; (3) FilmTec sued Hydranautics for patent infringement, and obtained injunctions to drive it out of the reverse osmosis membrane market, in bad faith, without any reasonable belief that it owned the patent.

The district court dismissed Hydranautics' complaint, holding that it was barred because it should have been raised as a compulsory counterclaim in the patent infringement action.

II. Analysis.

We review a 12(b)(6) dismissal *de novo*. *Everest and Jennings v. American Motorists Ins. Co.*, 23 F.3d 226, 228 (9th Cir. 1994). All allegations of material fact are taken as true and construed in the light most favorable to the nonmoving party. *Id.* at 229. A complaint should

not be dismissed unless it appears beyond doubt that plaintiff can prove no set of facts in support of his claim which would entitle him to relief. *Id.*

A. *Compulsory Counterclaim*

It was permissible for Hydranautics to delay suing FilmTec for predatory patent litigation until it had succeeded in defeating the infringement case. The Supreme Court in *Mercoid Corp. v. Mid-Continent Investment Co.*, 320 U.S. 661 (1944), said that "the fact that [an antitrust counterclaim for damages] might have been asserted . . . in the prior suit . . . does not mean that the failure to do so renders the prior judgment *res judicata* as respects it." *Mercoid*, 320 U.S. at 671. A claim that patent infringement litigation violated an antitrust statute is a permissive, not a mandatory, counterclaim in a patent infringement case, and is not barred in a subsequent suit by failure to raise it in the infringement suit. *See Id.* at 669-71.

An answer must state as a counterclaim a claim which "arises out of the same transaction or occurrence" as the plaintiff's claim:

> (a) Compulsory counterclaims. A pleading *shall* state as a counterclaim any claim which at the time of serving the pleading the pleader has against any opposing party, if it arises out of the same transaction or occurrence that is the subject matter of the opposing party's claim . . . .
>
> (b) Permissive counterclaims. A pleading *may* state as a counterclaim any claim against an opposing party not arising out of the transaction or occurrence that is the subject matter of the opposing party's claim.

Fed. R. Civ. P. 13. If a party has a counterclaim which is compulsory and fails to plead it, it is lost, and cannot be asserted in a second, separate action after conclusion

of the first. *Seattle Totems Hockey Club, Inc. v. National Hockey League*, 652 F.2d 852, 854 (9th Cir. 1981).

We determine whether a claim arises out of the same transaction or occurrence by analyzing "whether the essential facts of the various claims are so logically connected that considerations of judicial economy and fairness dictate that all the issues be resolved in one lawsuit." *Pochiro v. Prudential Ins. Co. of America*, 827 F.2d 1246, 1249 (9th Cir. 1987) (quoting *Harris v. Steinem*, 571 F.2d 119, 123 (2d Cir. 1978)).

While there may be cases where resolving both issues at once is preferable, *Mercoid* leaves open the possibility of raising antitrust claims as permissive counterclaims in an infringement action, or in a separate and subsequent action.

In many cases even if the antitrust counterclaim were asserted by counterclaim, the court would sever the issues and resolve the infringement case first. The evidence for patent infringement and antitrust damages may differ considerably, depending on the particulars of the case. If the plaintiff wins the patent infringement suit, then the antitrust counterclaim may ordinarily be disposed of expeditiously on motion, instead of by a time consuming and expensive trial.

The distinctiveness between the facts giving rise to the patent and those giving rise to the antitrust claims is suggested by the different appellate paths Congress has provided for those two kinds of claims. Appeals from patent infringement decisions now go to the Federal Circuit, but appeals from antitrust decisions go to the regional circuit in which the district court sits. *See* 28 U.S.C.S. §§ 1291-1295; 15 U.S.C.S. § 15(a). If the antitrust counterclaim were treated as compulsory, then any appeal of the antitrust decision would go to the Federal Circuit, not the regional circuit. This may generate a difference between the antitrust law generally applicable

within each regional circuit, and antitrust law in predatory patent infringement cases. That Congress has provided for regional courts of appeals to decide antitrust appeals, and for the federal circuit to decide patent appeals, suggests that Congress perceived a distinction between the kinds of facts giving rise to one or the other.

The antitrust claim attacks the patent infringement lawsuit itself as the wrong which furnishes the basis for antitrust damages. This is somewhat analogous to a civil claim for malicious prosecution. It is usually held that a malicious prosecution claim cannot be asserted as a counterclaim to the original suit which furnishes its predicate. 1 Harper, James & Gray, The Law of Torts § 4.8 (2d ed. 1986). *Mercoid* is consistent with this approach, and we see no reason to distinguish *Mercoid* from the case at bar.

In this case, Hydranautics claims that FilmTec was not entitled to a patent, fraudulently obtained one, and used it to run competition out of the market. The issue of whether FilmTec owned the patent was resolved in the infringement case, and is logically a part of both cases. That identity of issues, by itself, suggests compulsory counterclaim classification.

But there was not much point in litigating Hydranautics' antitrust claims until FilmTec's infringement case was resolved. The Federal Circuit held that the government owned the patent on the reverse osmosis membrane, not FilmTec, because Mr. Cadotte had conceived the invention while working for the non-profit on the government contract. Thus the patent infringement judgment was vacated on the ground that FilmTec did not own the patent, without a determination whether FilmTec had fraudulently obtained the patent. Because the Federal Circuit did not decide whether FilmTec obtained its patent fraudulently, the district court will now begin the antitrust case with a blank state on the fraud issue. If an appellate court reverses and vacates a judgment, the

party which prevails on appeal is generally not bound by adverse trial court rulings on other issues. *United States v. Cheung Kin Pang*, 555 F.2d 1069, 1077 (2d Cir. 1977). This difference in which facts control shows why there may be a significant difference, and there is a significant difference in this case, between the facts which control the patent infringement claim and the facts which control the antitrust claim.

B. Noerr-Pennington *Immunity*

Both parties agree that we may also affirm the dismissal of Hydranautics' complaint if we conclude that FilmTec is immune from this antitrust action under the rationale of *Eastern R.R. Presidents Conference v. Noerr Motor Freight, Inc.*, 365 U.S. 127 (1961). *Accord United Mine Workers of America v. Pennington*, 381 U.S. 657 (1965). In *Noerr*, the Supreme Court held that no violation of the Sherman Act may be predicated upon the defendant's attempts to influence the passage or enforcement of laws. *Noerr*, 365 U.S. at 135. That principle was expanded to include access to courts and administrative agencies in *California Transport Co. v. Trucking Unlimited*, 404 U.S. 508, 510-11 (1972).

FilmTec claims that it is immunized from an antitrust lawsuit by the *Noerr-Pennington* doctrine. Hydranautics disagrees. The district court did not reach this issue, but FilmTec urges us to affirm the district court dismissal on this ground, on the theory that if the issue of *Noerr-Pennington* immunity had been reached, it would have to have been decided on the pleadings in favor of FilmTec. We conclude that this disagreement could not properly be resolved against Hydranautics on the basis of the pleadings. The outcome will depend on evidence. We therefore cannot affirm on this ground.

Application of the *Noerr-Pennington* doctrine to antitrust claims has recently been clarified by *Professional Real Estate Investors, Inc. v. Columbia Pictures Indus-*

tries, Inc., 113 S. Ct. 1920 (1993) and our application of that decision in *Liberty Lake Investments, Inc. v. Magnuson*, 12 F.3d 155 (9th Cir. 1993). *Columbia Pictures* holds that litigation cannot be deprived of its antitrust immunity as a sham unless it is objectively baseless, regardless of whether the subjective intent of the litigation is to interfere with competition. "[U]nless a lawsuit is objectively baseless, whether an antitrust defendant 'was indifferent to the outcome on the merits' of the suit, or 'had decided to sue primarily for the benefit of collateral injuries inflicted through the use of legal process' is immaterial." *Liberty Lake*, 12 F.3d at 159.

FilmTec's theory is that its patent infringement lawsuit could not have been "objectively baseless," because FilmTec won in district court. FilmTec argues that its initial victory requires dismissal of antitrust claims based upon FilmTec's ultimately unsuccessful patent infringement lawsuits, regardless of whether it obtained the patents fraudulently. The holdings in *Columbia Pictures* and *Liberty Lake* leave open the question of whether an infringement action based on a fraudulently obtained patent is "objectively baseless." Footnote six in *Columbia Pictures* says the court does "not decide here whether, and, if so, to what extent *Noerr* permits the imposition of antitrust liability for a litigant's fraud or other misrepresentations." *Id.* at 1929, n.6.

Columbia Pictures cites *Walker Process Equip., Inc. v. Food Machinery and Chem. Corp.*, 382 U.S. 172 (1965) in footnote 6. In *Walker Process*, the Court held that proof of the claim that the patent holder obtained its patent by knowingly and willfully misrepresenting facts to the Patent Office "would be sufficient to strip [the patent holder] of its exemption from the antitrust laws." *Walker Process*, 382 U.S. at 177. It further held that "enforcement of a patent procured by fraud on the Patent Office may be violative" of the Sherman Act and subject the defendant to treble damages under the Clayton Act. *Id.* at 174. *See also California Motor Transport*, 404

U.S. at 513-14 ("Use of a patent obtained by fraud to exclude a competitor from the market may involve a violation of the antitrust laws . . . .").

We said in dictum in *Liberty Lake* that "[i]n a case involving a fraudulently obtained patent, that which immunized the predatory behavior from antitrust liability (the patent) is, in effect, a nullity because of the underlying fraud." *Liberty Lake*, 12 F.3d at 159. We now are faced with deciding whether the dictum in *Liberty Lake* is good law, and we conclude that it is, at least where the fraud is intentional, not "technical fraud." *See* Justice Harlan's concurrence in *Walker Process*, 382 U.S. at 179, cited in footnote 6 of *Columbia Pictures*.

Columbia Pictures explains that "probable cause" to institute legal proceedings, in the sense in which the phrase is used in tort suits for malicious prosecution of civil claims, establishes that the litigation is not "objectively baseless." At common law, a reversed judgment for the plaintiff in the first action usually is not conclusive as to probable cause in the malicious prosecution action, where the judgment was obtained by fraud. *See* 1 Harper, James & Gray, The Law of Torts § 4.8 (2d ed. 1986); W. Page Keeton et al., Prosser & Keeton on Torts 894 (5th ed. 1984). If the patent was obtained by "intentional fraud," and not merely "technical fraud," *see Walker Process*, 382 U.S. at 176, 179, then a reversed judgment based upon that fraud, where the plaintiff obtained the patent by intentional fraud or was an assignee who knew of the patent's infirmity, would not demonstrate probable cause for a patent infringement suit. *See Walker Process*, 382 U.S. at 177.[1]

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[1] While we were considering this opinion, we learned that the Federal Circuit decided a parallel case, *FilmTec Corp. v. Hydranautics*, No. 94-1084, 1995 WL 599982. (Fed. Cir. October 12, 1995) (petition for rehearing pending). In that case, the district court had denied Hydranautics' motion for leave to amend its answer to the patent infringement case to assert an antitrust counterclaim, because the motion came too late. The case had gone

Hydranautics asserts facts in its complaint that, if true, would prove that FilmTec obtained its patent by fraud. Its complaint therefore cannot be dismissed short of summary judgment or trial.

REVERSED and REMANDED.

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through judgment, appeal, and spreading of the appellate mandate, before the motion to amend was filed. The Federal Circuit held that the delay was excusable, because until Hydranautics defeated the patent claim, it had good reason not to file the antitrust claim. The Federal Circuit nevertheless affirmed the denial of leave to amend, because the antitrust claim would have been futile under the *Noerr-Pennington* doctrine.

We do not decide whether the case at bar is distinguishable, on the ground that FilmTec's alleged fraud would render FilmTec's patent infringement claim objectively baseless. The Federal Circuit held that as a matter of law, FilmTec's case was not objectively baseless, but said "there is no dispute over the facts." In the procedural posture of the case before us, it would not be correct to say that there is no dispute as to the facts. Hydranautics alleges fraud, and FilmTec denies it. We must assume for the purposes of Rule 12(b)(6) that Hydranautics could prove that FilmTec obtained the patent fraudulently. Nor do we decide whether the issue of objective baselessness is *res judicata*, on account of the Federal Circuit case. These questions should, if raised on remand, be decided in the first instance by the district court.

APPENDIX E

[Filed Feb. 28, 1996]

UNITED STATES COURT OF APPEALS
FOR THE NINTH CIRCUIT

No. 93-56426
D.C. No. CV-93-00476-GT

HYDRANAUTICS,
Plaintiff-Appellant,

v.

FILMTEC CORPORATION,
Defendant-Appellee.

ORDER

Before: SCHROEDER and KLEINFELD, Circuit Judges, and KING, District Judge.*

The panel has voted to deny the petition for rehearing. Judge Schroeder and Judge Kleinfeld voted to reject the suggestion for rehearing en banc. Judge King so recommends.

The full court has been advised of the suggestion for rehearing en banc and no active judge has requested a vote on whether to rehear the matter en banc. Fed. R. App. P. 35.

The petition for rehearing is denied and the suggestion for rehearing en banc is rejected.

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* The Honorable Samuel P. King, Senior United States District Judge, for the District of Hawaii, sitting by designation.

APPENDIX F

SUPREME COURT OF THE UNITED STATES
OFFICE OF THE CLERK
Washington, DC 20543-0001

WILLIAM K. SUTER
Clerk of the Court

Area Code 202
479-3011

March 29, 1996

Mr. John G. Roberts Jr.
Hogan & Hartson
555 Thirteenth Street, N.W.
Washington, DC 20004

Re: Hydranautics
v. Filmtec Corporation
Application No. A-805

Dear Mr. Roberts:

The application for an extension of time within which to file a petition for a writ of certiorari in the above-entitled case has been presented to the Chief Justice, who on March 29, 1996, extended the time to and including May 22, 1996.

This letter has been sent to those designated on the attached notification list.

Sincerely,

WILLIAM K. SUTER
Clerk

By /s/ Ruth Jones
RUTH JONES
Assistant Clerk